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COMMITTEE ON FINANCE AND INDUSTRY.

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MINUTES OF EVIDENCE

TAKEN BEFORE THE

COMMITTEE ON FINANCE AND INDUSTRY.

FIRST DAY.

Thursday, 28th November, 1929.

PRESENT:

The Rt. Hon. H. P. MACMILLAN, K.C., *Chairman.*

Sir THOMAS ALLEN.
Mr. ERNEST BEVIN.
The Rt. Hon. LORD BRADBURY, G.C.B.
The Hon. R. H. BRAND, C.M.G.
Professor T. E. GREGORY, D.Sc.
Mr. J. M. KEYNES, C.B.
Mr. LENNOX B. LEE.
Mr. CECIL LUBBOCK.
The Rt. Hon. REGINALD McKENNA.
Mr. J. T. WALTON NEWBOLD.
Sir WALTER RAINE.
Mr. J. FRATER TAYLOR.
Mr. A. A. G. TULLOCH.

Mr. F. W. LEITH-ROSS, C.B.
Mr. G. ISMAY, *Secretary.*

Sir ERNEST MUSGRAVE HARVEY, K.B.E., Deputy Governor of the Bank of England, called and examined.

1. *Chairman*: Sir Ernest, we greatly regret that the Governor of the Bank should be indisposed and unable to assist us to-day. I hope you will convey to him a message of our sympathy and our hope that he will be soon restored to health. In the meantime we count ourselves fortunate in having your assistance. You will appreciate that we have felt that evidence from the Bank of England should naturally be the first evidence to be taken by us. I think you are familiar with the Terms of Reference under which we are sitting. You have read them?—Yes.

2. I think we have all realised that the pivotal position occupied by the Bank of England in the financial system of this country makes it desirable that we should have at the very outset a clear conception of the nature and functions of the Bank of England as the Central Bank in this country. I think, accordingly, we might usefully employ our time this afternoon with your assistance in obtaining some evidence from you upon the position of the Bank. In the first place, would I be accurate in describing the Bank of England as the Central Bank here?—Yes.

3. Would you perhaps expound to us, what, in your view, a Central Bank really is? May I say before you proceed to give us your evidence, Sir Ernest, that you have round this table gentlemen of very varying degrees of knowledge in this matter. I hope you will not refrain from giving information which may to some members of the Committee and yourself appear elementary, because to others of us it will be very instructive; so do not feel in any way deterred from giving explanations which to you and other experts may appear elementary. We want to have a clear picture of the position of the Bank of England in the financial system of the country. Will you in the first place give us a short descriptive account of the meaning and characteristics of central banking?—The term Central Bank is, of course, one that to the uninitiated conveys no really particular significance. They regard it rather as the designation of an institution which is regarded as the head of the banking world, though as to the particular factors which constitute it the head there is in the minds of the general public certainly very often a rather hazy conception. I think it is partly due to the fact that for the sake of brevity the term Central Bank has been used, when if the fuller term Central Reserve Bank had been used I think that the public generally would have appreciated at once what is in fact the main function of such an institution as the Bank of England. The principal duty of the Central Bank is to maintain in the general interest of the community the stability of the national monetary unit, or, in other words, to maintain and to take custody of the central reserves on which the integrity of the national monetary unit depends. Now, in a gold standard world, the maintenance of the stability of the national monetary unit means, I take it, the maintenance of its stability in relation to gold as the common international denominator. The functions of the Central Bank, therefore, and the limitations on a Central Bank as to the type and class of business which it can conduct, are really determined by their bearing upon this duty of maintaining the integrity and stability of the national monetary unit. For this main purpose there are certain duties which it is, I think, generally recognised that the Central Bank must undertake, and I should put first of those duties that it must have the sole right of issuing notes.

It is obvious, I think—it will be obvious to the Committee—that if the Central Bank is to be responsible for maintaining the stability and integrity of the national monetary unit, it must have power of control over the issue of that national monetary unit in the form in which it is usually current in the country. To attempt to maintain the integrity of that unit where power resided in some other entirely independent body to create that unit in such quantities as it might determine, without regard necessarily to the actual requirements of business, would obviously render the task imposed on the Central Bank as the guardian of the monetary unit an impossible one. I should therefore put first, I think, that the Central Bank should have the sole right to issue notes.

Next to that I should place the responsibility for the custody of the central reserves on which the integrity of that unit is founded; in other words, the central gold reserves, and, at any rate in part, the reserves which form the basis on which the ordinary banking functions of the country are conducted. Next I should say that the Central Bank should be the bank of the bankers, and this for perhaps two reasons. It should, by acting as the bank of the bankers, to the extent to which it is employed for that purpose by the banks, be a means of measuring the volume of credit available from time to time for the conduct of the business of the country. It should act also for them as a clearing agent for the settlement of differences between bank and bank. By acting in that capacity it is able by mere book entries to settle differences, often differences of very large amounts, which must arise from day to day as between bank and bank by the claims which one bank may have upon another as against the claims which exist in the opposite direction. Unless some such arrangement as this exists by which these differences can in fact be settled in this manner by book entry, the banks in question would be under the necessity of holding vast sums of currency for the purpose of meeting their respective obligations to one another.

Then another function which I think it is essential should be performed by the Central Bank is that it should conduct the main banking business of the State. The State is the collector of vast sums of money from the community in the form of taxation, and, of course, those sums are only collected for the purpose of distribution for services rendered to the State and very largely, in our own case at the present time, for the payment of interest on the debt and of sums due to holders of maturing obligations of the State. But the incidence of the receipts and the payments of the State is necessarily very unevenly distributed. Certain revenues are always being received by the State—revenues from Customs, Excise and various other sources of that kind—but vast sums of the revenue received by the Government are only received by them at certain periods of the year. A notable instance is in the early months of the year during the annual collection of income tax and super tax. On the other hand, the State has obligations which are falling due in greater or less degree every day. It has the ordinary payments for services, but it has in particular the payment for interest on the debt and for maturing obligations.

If I may just cite one instance to illustrate what I mean: next week, on Monday, the State will have to distribute in interest for the War Loan alone a sum of about £50,000,000. Well, now, the sudden distribution of £50,000,000 by itself can create an enormous disturbance obviously in the movements in the volume of credit. Clearly it would be wasteful and extravagant for the State gradually to amass a sum of £50,000,000, drawing in this money gradually from the public and keeping it lying idle, in order that they may have the cash in hand to meet such a vast distribution falling due at one given moment. Obviously, therefore, the State has to rely on its banker, whoever the banker may be, to assist it to finance this very large distribution in the form of interest. Unless that duty resides in the Central Bank, the Central Bank will have considerable difficulty in adjusting matters in such a manner as to ensure that there will not be violent oscillations in the volume of credit, which would create great disturbances in the value of money from day to day, and which, in a country such as this with world-wide international connections, would possibly create very wide fluctuations in the value of the national monetary unit. If, however, the arrangements are entrusted to the Central Bank, the Central Bank has notice beforehand exactly as to the amounts which have to be provided. It can lay its plans to ensure that the State shall have the funds it requires, and moreover, that when those funds have been distributed they may be re-absorbed in an orderly and gradual manner without causing undue disturbance, and without leaving a flood of suddenly manufactured credit to disturb the value of money and possibly the value of the monetary unit measured internationally.

There are, on the other hand, certain limitations which are necessarily imposed upon the Central Bank. Its liabilities are all, without exception save only such liabilities as consist of moneys due to its own proprietors, payable on demand. It is essential, therefore, that it should maintain its assets in the most liquid form possible. Its business is to provide that the ordinary commercial trading banks of the country shall have a sufficiency of credit available to form the basis, the backing or reserve, call it what you will, of the amounts of credit that they may find it necessary to create to meet the varying demands of their clients scattered throughout the country. Unless the Central Bank maintains its assets in a liquid form it has no guarantee that it will at all times be able to adjust the position without causing unnecessary disturbance. But the Central Bank has another limitation imposed upon it. Its duties are, and must so be recognised by the institution itself, primarily as duties to the community as a whole. It must not be under the necessity whenever it has to undertake operations of considering whether the operations in question are to the immediate interest of its own stockholders or proprietors. It must not be under the necessity of having to assure itself of earning profits out of all the business it does. In fact, it is often compelled, not only to ignore the question of earning a profit, but even to sacrifice assets of an earning character which it already possesses, and so far from carrying out profitable transactions actually to undertake transactions which will result in loss to it. It must, therefore, be able to hold such a position as to be free from the anxiety and care of having to order its operations from the point of view of earning profits. For this reason it is usually, I think, agreed that a Central Bank should not pay interest on its deposits.

I said just now that its main duty—and it is the duty which it must at all times keep before it—is to conduct its operations in the interests of the community as a whole, and for this reason we, at any rate, have always considered that it should be free from the control of particular groups or interests. By that I do not mean, of course, that it should not have regard to the interests of particular groups or interests—indeed, it must have regard to the interests of every group—but it must balance the interests of one group against the interests of another group, and act in a manner which, in its judgment, it considers to be most in the interests of the community as a whole. For the same reason I think I may claim that it is an accepted principle that it should be free from political pressure. Its duty is, as I say, to the community as a whole. It has duties to the Government of the day undoubtedly, provided it is, as I suggest it should be, the banker of the Government, but its duties in that respect are the ordinary duties of banker to client. It should be free from being required to submit to political pressure and to subordinate sound finance to the dictates of political expediency. For that reason, as I say, we feel that it should be free from political control.

I do not know whether you would wish me to elaborate this question definitely of central banking at greater length. I have touched on what are the principal points. There are, of course, various minor points, but those which I have mentioned may, I think, be taken as the leading reasons for certain duties being entrusted to the Central Bank, and for the Central Bank being subject in its operations to certain definite limitations.

4. Then, Sir Ernest, do you emphasise those features as being the distinctive characteristics of a Central Bank?—I would, yes.

5. Features characteristic of a Central Bank, either in this country or in other countries?—Yes.

6. And differentiating therefore the operations of a Central Bank from the ordinary commercial banking of the country?—Yes. That remark, Mr. Chairman, reminds me that I have overlooked one point on which I ought to say a word. We hold that it is not the duty of the Central Bank to enter, generally speaking, into the ordinary banking business of trade and commerce of the country, and for two reasons. In the first place, in common fairness. It would not be right that an institution which is to be entrusted by the commercial banks of the country with a considerable part of their funds, which constitute a considerable part of their cash reserves on which their business is built up, should employ those funds to go out into active competition with them. But even apart from that the Central Bank has to be the port to which the general community can come in a storm. Other banks may be, I will not say in difficulties, but inconvenienced by circumstances entirely outside their own control, often circumstances which have occurred in other countries, and if the Central Bank enters into the ordinary business of the country it will be obvious, I think, that at the very moment when the general financial community may be feeling some strain—owing to some event possibly thousands of miles away—if the Central Bank is doing the same class of business it may at the very moment when the rest of the banks find a need to seek its assistance find itself in exactly the same difficulties as the commercial banks, and therefore the less able to render the assistance which is required of it. We consider, therefore, that it is no part of the ordinary business of a Central Bank to enter into the ordinary commercial banking of the country.

At the same time, when I have spoken on this subject, as I had to about three years ago in Australia, I had to face there a certain—I will not say antagonistic attitude—but critical attitude from a section of the community, who had the impression that unless the Central Bank—I speak now of that particular country; I am not speaking of this country—unless *their* Central Bank had the power to do ordinary commercial banking the community might find themselves left at the mercy of a body of banks who might levy upon them just such terms as they might think fit. The feeling was very strongly expressed therefore that their own particular Central Bank should have the power to conduct ordinary banking business, in order that they might have some sort of assurance that banking facilities that were really required by the country could always be obtained at a reasonable price from some quarter; in other words, that the existence in the Central Bank of the power to do ordinary commercial banking would be an assurance to them of protection against excessive demands from other banks.

7. I gather that your view, Sir Ernest, is that this differentiation of function between a Central Bank and the ordinary commercial banks of the country is one of very great importance.—Very.

8. And the bank that engages in the business of a Central Bank, while it has certain rights and privileges accorded to it, has to pay for those in certain limitations of its activities?—Yes.

9. Is the system of central banking now general among the nations of the world?—It has extended, of course, very much in recent years, and members of the Committee may be familiar with the cases of Central Banks which have been established in recent years since the War in many European countries. The principles which I have been advocating this afternoon will, I think, on an examination of the statutes of those banks, be found to be embodied in practically every instance.

10. I was only anxious to get some indication of the extent to which that doctrine of differentiation of function had in modern times been found acceptable. Apparently in quite recent times the same principle has been adopted in other countries?—Quite recently. Of course, we must recognise that even here central banking is a plant of comparatively recent growth. The Bank of England itself was founded as an ordinary commercial bank, and for years practised as an ordinary commercial bank, and I think it would be fair to say that the foundation of central banking—although the term central banking was not then used, and certainly the conception of central banking as I give it this afternoon was not then present in the minds of people generally—may be held to have been laid when the Bank Act of 1844 was passed. But even so, central banking as we now understand it, did not exist for many years after. I can remember myself the time when I was young in the Bank, 40 years ago, when certainly this particular suggestion that a Central Bank should take no part in the commercial banking of the country was—well, a debatable point; I will not put it stronger than that. In fact I think possibly some members of the Committee will say that it was not recognised by the Central Bank. But it has become a gradual development, and with the increasing responsibilities which in the case of the Bank of England, for example, have gradually been thrown upon us, we have increasingly come to recognise that it is really an essential part of the banking machinery of this country.

11. That is the very word I was going to use. It is part of the financial mechanism of the country—of course, to be judged by the efficacy with which it achieves its object. The object, I understand, is the maintenance of the stability of the currency of this country?—Yes.

12. You recognise that there are differences of opinion as to how that is best to be achieved, but in your view there is a strong consensus of opinion that this particular mechanism which has been evolved and devised is best calculated to achieve that result?—Yes.

13. And the various functions which you have been describing to us this afternoon are all incidental to that process?—Yes.

14. You referred to your recent experience in Australia, and you were kind enough to hand me before our proceedings a pamphlet which has been issued entitled "Central Banks," which contains a short paper, or address, by you, Sir Ernest, on this topic. I have had the pleasure of reading it, and find it a summary of the position very much on the lines of what you have been telling us to-day. This, I understand, is now a public document. It has been published, I gather, rather without your knowledge?—It was published with my knowledge though in no way on my initiative.

15. May I take it that it contains more or less your views still?—Yes.

16. I am going to ask our Secretary if he will be good enough to get copies of it for circulation among our members. Would that be agreeable to you?—Certainly. I almost blush to offer it to certain members of the Committee. I am afraid I am rather offering "A Child's Guide to Knowledge," and I should like to explain that it was merely a rather impromptu little address delivered after dinner one evening to a meeting of bank clerks and others in Melbourne. It was never intended to attain any wider notoriety than the particular hall in which it was delivered, but somebody appears to have secured the shorthand notes, and, as you have just said, the document was ultimately published here, but not at my wish.

17. But whatever its genesis, in this case it does represent in summary form your views?—Yes.

18. I think it would be useful for us to have it. I notice in the course of your address on that occasion you referred to various sources of information on central banking, to reports of previous Committees, and so on. Are there any of those to which you think it might be useful for the attention of the Committee to be directed?—If I remember right, I referred to a Report of Evidence that was collected by the Aldrich Commission.

19. Yes.—Senator Aldrich's Commission, prior to the establishment of the Federal Reserve System. That was authoritative. They submitted to us a questionnaire to which we gave answers, and, as a picture of the practice at that time, I think it certainly may be regarded as an absolutely authentic and accurate account. It is, perhaps, in some respects a little bit out of date, because things have altered a good deal since that evidence was given—I think it was about the year 1907—though it still has interest, because many of the facts in it are still unchanged, the practices are still unchanged. I do not know whether it would interest the Committee, but it goes fairly fully into the question of types of bills of exchange which are acceptable to the Bank, and rather detailed matters of that character, the practice of the bank in regard to granting advances, and various matters of that kind, but I am doubtful whether you would be able to obtain it. It was a State Paper.

20. You referred to the relatively recent evolution of the conception of a Central Bank, and its function in the State. I thought it might be useful to some of us to pursue the history of its evolution in various State Papers.—I am doubtful whether you would be able to do so really in published papers. I think another document I referred to was the Report of the Genoa Conference.

21. Yes, you referred to that, I think.—I referred to the Report and Act in connection with the establishment of the Reserve Bank of South Africa. I think I referred also to the Report of Dr. Vissering and Professor Kemmerer in connection with the establishment of that bank.

22. Yes; that is mentioned there. Now, you have given us, Sir Ernest, a very clear picture of the functions and characteristics of a Central Bank, and the features in which it is differentiated from the ordinary bank as popularly understood. I think now it might be useful if you would pass to the Bank of England itself, and tell us how it is organised as a Central Bank.—Yes.

23. *Lord Bradbury*: I understood you, Sir Ernest, to say that the Bank of England, in its initiation, was largely created for the purpose of an ordinary commercial bank. There is no doubt that through history the Bank of England has done business to a very large extent of a similar character to that which is now done by the joint stock banks?—Yes.

24. I take it that according to your conception of central banking the tendency now is to reduce the volume of that business, and, so far, say, as ordinary traders and manufacturers are concerned, the volume of ordinary banking business that the Bank of England does at present is a rapidly decreasing amount. Is that a correct view?—Certainly.

25. It is not entirely eliminated, even as regards ordinary traders and manufacturers?—No. Of course, there are the remains of old connections, where we do not want to turn people into the street, as it were, but we do not encourage anybody in that category to come to us.

26. The general tendency is to eliminate that policy?—The general tendency is to let it die a natural death, and not replace it.

27. But I think the Bank of England has certain large current accounts for customers other than bankers?—Undoubtedly.

28. They would not necessarily come under your embargo—for instance, the Stock Exchange?—Well, the Stock Exchange, no. The number would be quite limited, because we do not provide them with the facilities which they require. We have large accounts, but they are principally accounts of, for example, Insurance Companies; in many cases they do not come to us for ordinary banking facilities; they seem to have a feeling that the vaults of the Bank of England are a particularly safe place in which to deposit very large volumes of securities; and for that purpose they like to keep an account with us. It gives them the right to leave their securities; they leave with us merely a balance which provides us with adequate remuneration for all the services we render in the custody of their securities. That would constitute quite a considerable amount in the way of balances, but we do not, as a general rule, do their ordinary banking business. We have also many mercantile firms. There are many firms who have had accounts with us for years, and I dare say—in fact I know, that on many of them there has been no operation for possibly 20 or 30 years; but they like to feel that in case of a rainy day they have the power to come to us for shelter.

29. The reason is very largely sentimental?—Very largely sentimental.

30. From the point of view of the Bank of England as a Central Bank, the functions of the Bank could be discharged adequately if its current accounts were limited to bankers' accounts. Is that putting it too baldly?—I do not quite follow.

31. I mean, if its only customers were banks in the wider sense. I only want to get at the theory—whether you think there is, in connection with a proper system of central banking, any necessity for the Central Bank to have accounts with customers other than banks—purely on the theoretical ground?—I will not say that there is any necessity, but I did say a little earlier that we consider that it is desirable—and again I want to make it perfectly clear I am not speaking now particularly of this country—that a Central Bank should not be restricted in that respect; in other words, that it should have the power to afford banking facilities at reasonable charges—subject, of course, to their being fundamentally of a sound description—if for any reason they are not available elsewhere. As regards the amount of the actual balances, you will realise that if Mr. X keeps £1,000 with the Bank of England, and if he transfers his £1,000 to, let us say, the Bank of London, and the Bank of London is a customer of the Bank of England, it merely involves in the Bank's books a transfer of £1,000 from Mr. X to the Bank of London; it involves no alteration whatever in the total of deposits in the Bank of England.

32. *Chairman*: I think the point, if I may say so, that Lord Bradbury wants to emphasise is, whether the Central Bank should be exclusively the Central Bank—whether there should be a self-denying ordinance excluding it from ordinary banking business. That is the purely theoretical idea?—Yes.

33. You think that they should have a liberty to engage in ordinary banking business?—They should have a liberty which they should not necessarily exercise.

34. *Lord Bradbury*: But the existence of that liberty you do not regard as essential to the proper discharge of the functions of the Bank as a Central Bank?—No. I should not say it was essential to the proper discharge of the functions of the Bank as a Central Bank.

35. *Chairman*: The Central Bank should do no ordinary commercial banking. It should simply do its duty to the State?—No, I must except—of course more particularly in this country—certain classes of private customer. You are talking now, I presume, of the ordinary private bank customer or the ordinary commercial or trading firm. You are not including such people as, for example, the discount market?

36. *Lord Bradbury*: No, I purposely left them out. I was referring primarily to manufacturers and traders, and, secondly, to people who are engaged in what may be called ordinary finance business in London, such as Issuing Houses, the Stock Exchange, and even Insurance Companies?—Yes. Certainly, so far as the Stock Exchange is concerned, and also as regards commercial firms, they are not essential in my judgment to the working of a Central Bank. I am not quite sure when you touch upon Issuing Houses whether there might not be circumstances in which the absence of a relationship with Issuing Houses, the ordinary relationship of banker and client, might not at times be a disadvantage.

37. Well, I speak with a considerable amount of ignorance as to the practice in these cases, but I think there is quite a large number of large Issuing Houses that in fact have not accounts with the Bank of England?—I should say not a large number of large Issuing Houses. I should say that the majority of large Issuing Houses have accounts with the Bank.

38. *Mr. Brand*: Might I ask one question arising out of Lord Bradbury's questions? When Lord Bradbury says the Bank, as a Central Bank, should only have banking accounts, in the term "banking" would you include the Discount Houses?—Well, for that purpose I should.

39. As firms which should have an account?—Certainly, because that is an absolutely essential part of the machinery, an absolutely vital part of the machinery.

40. *Mr. McKenna*: Sir Ernest, you have recently altered the form of the Bank Return, and give more information than you used to give. You discriminate in that Return now between the deposits of the Clearing Banks and what, for this purpose, are called private customers' deposits?—Yes. I was proposing, Mr. Chairman, if it would be agreeable to the Committee, a little later to hand round copies which I have here of the last issue of our Bank Return, and to make a few remarks on the very point which Mr. McKenna is now raising, to explain exactly what we include under all the various headings of the Bank Return.

41. Do those figures show for a number of years—I understand you have taken them out for a good many years—any decline in the total of the deposits which I will call the deposits of private customers?—No, not a decline, because, of course, the total of the Bank's deposits since the outbreak of the War shows a very considerable increase, as do the deposits of every bank. Taking them simply and comparing them as figures I should say that they would not exhibit a large decline; and for another reason, that since the War—and that was one of the notes which I had down here to mention in connection with the functions of the Central Bank—we hold that a Central Bank should cultivate with the Central Banks of foreign countries that are established on a gold standard as intimate relations as possible for the easing and smoothing out of the variations upwards and downwards that may take place in the position as between countries. In point of fact, as foreign Central Banks do hold funds with us which are included in this figure, if you were to ask me whether the accounts of ordinary commercial firms, private customers, and so on, have decreased, I should say yes, most decidedly.

42. Ordinary commercial firms have decreased but other business of private customers, such as foreign Central Banks, has increased?—They have actually increased in figures. I should say, as I shall say when I come to the subject presently, that that figure which we now segregate from what are termed the bankers' balances includes the balances of a great many other businesses, all the banks, for example, in this country whose operations are not primarily conducted in this country although they may be British companies—their head offices may be here—all the Australian banks, Indian banks, South African banks, South American banks, Canadian banks, any foreign banks that may have branches in London who have accounts with us, although even in that case the practice of the Bank now is not to open accounts for any foreign institution other than the Central Banks.

43. All the banks that you have named are customers of ordinary banks, are they not?—Certainly. And their accounts with us are in a great many cases, no doubt, merely subsidiary accounts.

44. I understand that in no case do you allow interest on deposits?—In no case.

45. In the case of the Central Banks whose deposits you use for them?—Not even in their case.

46.—You charge them a commission for using their deposits and lending on the market. Is not that correct?—We charge them no commission.

47. You give them a full return, you employ their money for them?—We employ their money for them in such form as they may direct us to employ it; it may be in Treasury Bills, it may be in commercial bills; in some cases it is in longer securities; in some cases they direct us to invest it in gold, and to hold the gold for them.

48. Do such deposits appear in your books as deposits?—No, not to the extent to which they are employed; only the free deposits. They do hold considerable free deposits with us, on which they get no interest, and which appear in our Returns.

49. Then so far as you are the banker for Central Clearing Banks whose deposits are used by you in the market those deposits do not appear in your figures?—When you say used by us in the market you mean invested in the market by us on their behalf?

50. In which you act as their agent?—They are not in our deposits.

51. That would materially reduce the total of deposits?—Certainly, but it still leaves a considerable margin of free balances which are included in that category.

52. You say it is desirable for a Central Bank to conduct private business in order to meet a case in which all the other ordinary commercial banks conspire, or, in fact, do not give credit in a particular instance?—Well, I say they should have the power to do so.

53. Do you know of any such case in this country ever having arisen?—No, I am not aware that in this country it has. In making my remarks I had not this country in mind.

54. Yes, I understood that. I hope to have the pleasure of reading your address. It is a fact, as you explained to us earlier, that the sole source and the basis of credit on which the joint stock banks can act is the Bank of England?—That is so.

55. If the joint stock banks feel that the Bank of England does not supply a sufficient basis of credit they have no other institution to which they can go, have they?—They have no other institution to which they can go. They have, I suppose, the means of forcing the Bank of England to create additional credit, as they do now.

56. *Mr. Bevin*: How?—By calling in their short funds from those who employ them they compel those persons to have recourse to the Bank of England, and thus to create the credit which has been called in.

57. *Mr. McKenna*: It would be a very limited power that they could exercise?—It is not very limited at times.

58. Well, for make-up purposes I know it is not limited, but for a continuous purpose it would be a very limited power?—I agree it would and it might create considerable disturbance inevitably.

59. *Mr. Lubbock*: Those principles that you have laid down, I imagine, are evolved out of the experience and practice of the Bank of England, broadly speaking?—Yes.

60. You spoke of the creation of a great number of Central Banks. The functions of those Central Banks are prescribed for them by statutes?—That is so.

61. Statutes that embody the principles which you lay down and by which they are strictly limited?—That is so.

62. The Bank of England is not regulated in its practice, I believe, by any statutes of that kind?—The Bank of England is practically free to do whatever it likes with one exception. Of course, the arrangements regarding note issue, for example, are all very clearly defined by statute. There are certain other provisions as to what it may do in its relations with the Government as regards lending money to the Government and so on, the form in which it must publish an account, but, apart from that, there is only one real prohibition that is imposed upon the Bank, and that is in the Tonnage Act of 1694 which says that in order not to oppress His Majesty's subjects the Bank is to be debarred for all time from using any of its funds in dealing in merchandise or wares of any description. Really apart from that I believe that there is no restriction on the business which the Bank of England can perform.

63. Although these principles have not been worked out in a laboratory and imposed upon you——?—No.

64. They may be regarded as a process of life and growth and adaptable to changed circumstances?—They have been adopted by the Bank of England by voluntary and free acceptance. *Chairman*: It is like the definition of the Common Law and the Statute Law—the one is a process of evolution and the other is a process of imposition.

65. *Mr. Lubbock*: In some of the Banks they have found it necessary to vary their statutes?—In certain cases, I believe, where they have hampered them, they have already had to go.

66. *Chairman*: You did say in passing that other countries also had their Central Banks. It may at some stage of our inquiry be of interest for comparative purposes to examine the system of some of the other countries, possibly the United States, but so far as you know, do any of the Central Banks in existence outside this country exemplify those features to which you have alluded, or do they suffer from various qualifications or limitations imposed by statute?—They have undoubtedly certain limitations, certain obligations, which are imposed upon them by their statutes in many cases, especially in recent cases. In most of the recent cases I think I am correct in saying that the statutes have been drawn up for them by the League of Nations. The League of Nations have adopted a more or less general scheme of statutes. Then they have imposed restrictions in some cases which are not imposed in others, and the object of those restrictions it is often clear has been the protection of the Central Bank against control by its Government.

67. Then may we take it that the Central Bank conception has grown up in this country, so to speak, out of the natural financial design?—Exactly.

68. Whereas, in other countries it has been imported?—That is so.

69. Therefore, in other countries where it has been imported it has naturally emerged as a full-grown entity in a written form?—In a written form.

70. Contrasting our unwritten Constitution in this country with the written Constitution of the United States, where the country has adopted a Constitution which has been evolved for it by us?—That is so.

71. But the Central Bank system as you have described it seems to have evolved itself in order to meet the requirements of its environment?—The restrictions, so far as there are restrictions, under which the Bank works in its operations are restrictions which the Bank has imposed upon itself and which, of course, it has the power to alter.

72. And the organism will show an increasing adaptation for the purpose which you have in view?—Exactly.

73. Whereas you were originally engaged in commercial banking like other banks, the specialisation of your function has developed and you are now to an increasing extent becoming a Central Bank?—That is so. I may cite as an instance of that in my early days we had a certain number of branches in the country, and they were actively employed in the commercial business of the districts in which they were situated.

74. Like any other bank?—Like any other bank. Now, I think, they may be described as centres for the collection of balances from the banks in the towns in which they are situated. They hold balances for the banks, they settle the clearings for those banks, they hold a certain number of Government balances, but, apart from that, they are little more really than currency centres for the conduct of the currency arrangements, for the distribution of currency, for the receipt of currency, for the collection of worn coin, and so on. They are little more than that.

75. The result of your general account, and what has impressed me, is that you do not think the Bank of England—or the Central Bank, if I may use that term—should be debarred necessarily from engaging in ordinary business, but you do think that its primary function is not ordinary banking business but those specialised functions which you have described?—Certainly.

76. And the success will be judged by the extent to which it satisfies those special functions?—Yes.

77. *Professor Gregory*: I think we ought to clear up the point as to precisely what is meant by the argument that the Central Bank should not compete with the ordinary commercial bank. I take it that what you have really in mind is that the Central Bank should not be debarred in certain cases from having commercial customers, and that as a principle the Central Bank should be allowed to hold commercial assets, even though it may not be allowed to compete for them?—Yes.

78. You would not agree to the principle that the Central Bank should not hold bills of exchange?—No, it is essential that it should.

79. In other words, some form of competition between the commercial bank and the Central Bank is really inevitable so long as the Central Bank holds trade bills or commercial documents of any kind?—Yes, a certain amount of competition, but the major part of the bills which the Bank receive are brought to the Bank at a time when they cannot be taken elsewhere.

80. I mention this because, as you are probably aware, a considerable amount of agitation on the position of the Federal Reserve System is taking place in the United States, and I am rather anxious to secure the Central Bank from the implication that competition between the commercial banks and the Central Bank is something to be avoided at all costs. It seems to me to be inevitable so long as the Central Bank holds commercial assets.—To that extent, certainly. When I was speaking of competition I was meaning the attraction of banking customers for the conduct of ordinary banking business, commercial accounts, trading accounts, ordinary private customers, and so on.

81. *Mr. Keynes*: Does it not really come to this, that it is rather difficult for you to give us a clear-cut answer because there is a slow evolution going on, of which we are in the last uncompleted stage, so that the Bank of England might in the past have assumed responsibilities that it would not undertake *de novo* if it were a matter of starting afresh. There has been, in effect, a change of practice of the Bank of England, even over the last 25 years?—That is so. There has undoubtedly been a very large change of practice and I think it quite correct to say that it is still in process of evolution.

82. *Chairman*: The general point is that, in so far as the Bank of England has accounts of a commercial nature, they are to be regarded as a survival of past history?—Yes.

83. *Mr. Keynes*: On the other hand, the Bank of England is still inclined to enter into transactions when there are special reasons such as rationalisation in the general interests of the country?—There, again, we do feel that, if we can help in the rationalisation of industry, it is our duty to do so.

84. *Chairman*: There is a change of orientation in the Bank, is there not? The Bank outlook has been changed?—Certainly; it has been changing for years.

85. *Mr. Brand*: You said that the Bank of England regarded itself as having a duty to the community as a whole. Is your view, when you say that it ought not to be prohibited from having commercial accounts, that the object of those accounts would be to enable the Bank to perform duties to the community as a whole and not to any particular firm?—I should say that, as regards the ordinary sections of the community, the commercial community or the private community, our view that the Bank should have the power is, that we may render services if the services are legitimate services and cannot be rendered, or will not be rendered elsewhere; but nothing further than that.

86. *Mr. Bevin*: I do not know whether this matter of conflict between the Central Bank and the commercial banks is going to be dealt with presently, but I would like to ask one or two questions from the point of view of the ideal Central Bank. In your reply a moment ago to a question put by Mr. McKenna, you said that the Bank is all-powerful and, therefore, is the sole decider of the issue of credit. Then we got the answer that, as regards the joint stock banks, there is no appeal against the Bank of England except through the disturbance of business caused by the calling in of funds by the joint stock banks and so putting pressure upon the Bank of England. Would you agree, Sir Ernest, that that is a real weakness?—No; I should not, and for this reason. Somebody has got to decide, and I am doubtful whether, if the responsibility for deciding were distributed, you would, in fact, get as satisfactory, or a more satisfactory arrangement: provided, of course, that the responsibility is discharged properly. I agree that it is a large power to put into the hands of an institution.

87. But you did say that there had been conflict, because, when I asked how, you said " The joint stock banks have brought pressure to bear upon us by calling in their funds and compelling people to have recourse to the Bank of England." Now, if it is essential for the joint stock banks to bring pressure on you to issue more credit to meet what they regard as necessary, they cannot do that very well, can they, without causing disturbance in industry?—I did not say there had been disagreement.

88. I thought you said " as had been agreed " or as you had done. I took down your words?—No; I said it is a normal practice of banks, not for the purpose of increasing credit, but when they wish to improve their own figures for the publication of accounts.

89. *Chairman*: I think that what the Witness had in mind was that that was the ultimate sanction—that that was the breaking point—that if the commercial banks could not supply credit and they had to call in their money, then the only other reservoir was the Bank of England; but that was the ultimate sanction. Is that a fair way to put it, Sir Ernest?—Yes; I think I would accept that.

90. The thing must reach an end at some particular point, and you are, so to speak, the terminus. Is not that so?—Yes. (*Chairman*): Whether it should end there is another question.

91. *Mr. Bevin*: Assuming a joint stock bank is limited in giving credit, owing to the restrictions imposed by the Bank of England, that is reflected in the joint stock bank's attitude to the customers and there is a restriction of trade. The joint stock banks say to the Bank of England, " The credit you are allowing us is not sufficient to meet the demand upon us." I will assume that, in the main, the Bank of England is ceasing commercial business, therefore industry is in the state that it is driven to the joint stock banks. Now, there is a conflict. There are the needs of industry; there are the joint stock banks who cannot supply the needs of industry because of the restriction of this almighty power. At present, according to the suggestion, the only way is to cause a crisis, in some way, in order to bring pressure upon the Bank of England. Now, is that an ideal or satisfactory state, to put such pressure on that middle factor as to produce a crisis in the third factor, on which we all live?—There is another factor, and that is that, whilst the Bank of England have no desire whatever to restrict the supply of credit, and can have no object in restricting the supply of credit, seeing that, even from selfish motives alone, it would simply be a source of profit to them, they have what I have described as their fundamental responsibility, which is to safeguard the stability of the monetary unit of the country.

92. *Chairman*: May the position be that there is not any more credit to give . . . ?—Without risking the loss of the credit which already exists.

Chairman: That is the point. You may reach, I suppose, a breaking point, that commercial banks cannot give advances; they in turn come to you and ask if you can assist, and you may find yourselves, in turn, in a position in which you cannot give credit facilities because, if you were to do so, you would destroy the stability of the economic system of the country. *Mr. McKenna*: I am bound to make an observation on that. You say they could not, without endangering the stability of the currency. That is surely a question of opinion. *Chairman*: Certainly. *Mr. McKenna*: What we do not understand yet is the ground on which the opinion is formed from time to time, or the policy which actuates the Bank in saying " You shall go thus far and no farther." *Chairman*: The Bank of England is the repository of that information. *Mr. McKenna*: The sole repository. We do not know why they act. That is our trouble at the moment. We know their motives are unimpeachable, they are the most disinterested institution in the world, but we want to know—I would like to know—why they do these things. *Chairman*: I do not think that we can enter into that topic at the moment; Sir Ernest is giving us a description of the existing system. The Bank of England is, as matters stand at present, the ultimate repository of information, upon which it delivers its judgment on the question of credit. *Mr. Bevin*: And that is recommended to us by Sir Ernest as the future state. *Chairman*: And, in his opinion, rightly so. Whether it is rightly so or not, we can discuss later. Have we got your point, Mr. Bevin? *Mr. Bevin*: Yes, I think I have the point. I have the Witness's answers. It stands, like the Bank of England, where it stood.

93. *Chairman*: You were going to tell us, Sir Ernest, something of the organisation of the Bank of England which will illustrate to us a Central Bank in being, and how it functions. Will you illustrate it in your own way?—Well, as regards the particular functions which I mentioned as appropriate to a Central Bank, I may instance the following as actually discharged by the Bank of England. It holds the reserves, the main gold reserves of the country. It is the bank of the bankers, and it holds, on behalf of the bankers, a considerable proportion of the bankers' own cash reserves. It manages the note issue, apart from certain subsidiary issues of banks in Scotland and Northern Ireland, though, even there, it is, for the major part of those issues, ultimately responsible, seeing that, out of a total average circulation for those districts of about 28½ millions, about 24½ millions is secured by the backing

of Bank of England notes. It is important, in considering the total of the note issues of the country, to bear in mind the fact that if the issues of the Bank of England are added to the issues of Scotland and Northern Ireland, allowance must be made for the fact that some 25 millions—30 millions is duplicated, seeing that notes for that amount issued by the commercial banks are covered by notes issued by the Bank of England. The Bank of England holds the gold reserves and it is under compulsion to buy any gold that is offered to it at a certain fixed statutory price, subject to certain conditions as to melting and assay, and it is further compelled to sell gold at a certain statutory price. It has the custody of the Government balances and, as the banker of the Government it also manages the National Debt, it pays the interest on the National Debt, receives subscriptions to the national issues, and pays off the maturities of National Debt. In those respects, therefore, it is actually discharging functions which I have suggested properly form part of the functions of a properly constituted Central Bank.

94. As to its own actual organisation, Sir Ernest, will you turn to that now?—As to its own organisation, it is divided, roughly, into two main departments, though there are other subsidiary departments, the two departments being the one engaged with all the banking functions of the institution, including the issue of notes and all matters of an ordinary banking character, the other being concerned with the management of the Public Debt, with the payment of the dividends on the Public Debt, the registration of transfers and all the ordinary duties which the Registrar of any ordinary Stock has to perform.

95. That division dates, does it not, from the Act of 1844?—No, that division does not actually date from then. The division which I think you have in mind, Mr. Chairman, as dating from 1844 is the division within the Banking Department which divides the Issue Department from what is described as the Banking Department. When I come to the Bank Return I will refer to the exact nature of that division.

The Charter under which the Bank is constituted leaves the Bank a very free hand, subject to that one particular provision which I have mentioned. A Supplemental Charter was granted in 1892, but it deals only with matters of internal routine. The Charters define how often the Court of Directors is to sit, the appointment of Committees for dealing with various matters, how the cash is to be held, and matters of that kind. In point of fact the Court of Directors meet weekly. In order to constitute a Court it is required by the Bye-laws that there shall be present the Governor or Deputy Governor and 13 out of the 26 Directors. There are various committees also appointed to deal with various sections of the Bank's work. There is what is known as the Committee of Treasury; that I might describe as being a sort of Inner Cabinet of the Bank. It is a body of nine members, and except that the Governor and Deputy Governor are ex-officio members, it is elected by ballot of the whole Court, by secret ballot. They act as a special body with whom the Governors can consult regarding all the more important business of the Bank, and can consider matters to be submitted to the Court and make recommendations, it being, of course, open to the Court to question any recommendation made and to open a discussion on any matters submitted to them. There are other Committees to which I think perhaps it is hardly necessary to refer in detail, for they deal with various matters such as staff matters, matters of the buildings, and various matters of internal organisation.

As regards the actual establishment of the Bank, in addition to the Governor, the Deputy Governor and 24 Directors who form the Court, there is the senior member of the official establishment termed the Comptroller, who acts as a sort of liaison between the Court and the clerical and official staff. He attends to various domestic matters on behalf of the Governors in order to afford them some relief from the work which they have to perform and he attends all Committees, so that an official view is always at hand on any subject that may come up for discussion. In addition there are others to whom I cannot exactly give any particular designation. They are generally spoken of amongst ourselves as advisers, people with special knowledge who are concerned with many of the developments of the Bank's business which are matters of more recent history, such, for example, as the relations with foreign Central Banks, their relations with the rationalisation of industry and matters of that kind. Also, members of their staff are in the habit of travelling at frequent intervals to interview the Governors and higher officials of foreign Central Banks, and we receive in turn visits from the Governors and officials of the foreign Central Banks. They have under them what is a new creation of recent times, a department which is entirely concerned with conducting the relations with foreign Central Banks. There is an office that is concerned with the preparation of statistics, statistics regarding industry, prices, every matter affecting the trade of the country and the trade of foreign countries. It receives information from foreign sources and collates it and compares it with our own. There is a Secretary's Department which, as its name implies, deals with secretarial matters, and matters connected with the staff and so on. There is an Audit Department which is perpetually engaged in conducting audits of various portions of the Bank's work, which is independent of all other officials in the Bank and is the direct servant of the Governors and Directors, and reports to them direct regarding the position which is revealed by its various examinations of the business and the control and custody of the Bank's assets and so on. There is in addition a large printing factory but that, of course, is not situated actually in the Bank, and is primarily maintained for the production of all the Government dividend warrants and so on and the notes issued.

To give you some idea of the size of the institution and of the extent to which it has grown as the result of the great additional work which has been imposed upon the Bank as the result of the War, I may say that apart from the printing factory, the staff which before the War was approximately 1,000 is now about 3,700 to 3,800. The Governors and Directors alone are responsible for policy and direction, though, of course, they are in constant consultation with the officials who are entrusted with the task of carrying out the policy which is laid down by the Governors and Court of Directors. It may interest you to know, just as a guide, to give you some idea of the magnitude of the work which the Bank has to undertake in connection, for example, with the administration of the National Debt, that there are on the books of the Bank upwards of three million separate stock accounts, quite apart from the very large holdings, of course, of bearer securities. Those are not only Government stocks; they include also Colonial Government, Corporation Stocks, and so on, and during the course of the year it is probable we have to record between nine hundred thousand and a million transfers. We pay from 4½ to 5 million dividend warrants and probably upwards of 5 million coupons, whilst the number of notes—I give you these figures because it is under these heads, the management of the National Debt and the extent of the issue of notes, where the very large increase has been necessitated in our establishment—the number of notes that we issue in the course of the year and consequently pay, because the amount remains more or less stable year by year, is about 650 millions. The whole of these warrants, coupons, notes and so on, is printed in our own factory.

96. *Mr. Keynes*: We are told there are 24 Directors beside the Governor and Deputy Governor,

and it is common knowledge that many of those Directors are in active business as merchant bankers connected with the money market. How far do those Directors who are themselves in active business take part in the inner councils of the Bank, and how far are they merely, as it were, an advisory body whose wisdom can be called upon by the more active people?—Well, there is no rule which governs the subject, but in practice it is rare, I think I should be correct in saying, for more than one or two from that type of firm to be members of the Committee of Treasury.

97. *Chairman*: I gather that they are elected by ballot, the Committee of Treasury?—It is a secret ballot.

98. But the ballot might, of course, fall upon a person of the type that Mr. Keynes suggests?—That is quite true, but it is generally understood that on that Committee there must not be a preponderance of members of the Court of that description.

99. *Mr. Keynes*: Would the ordinary Director, who is not on the Committee of Treasury, have knowledge of an impending change in the Bank Rate before the actual morning on which the recommendation of the Committee of Treasury was made?—When you speak of the "ordinary member," do you mean the ordinary member who is not a member of the Committee of Treasury?

100. Yes?—No. He might know, he would probably know the direction in which things were tending. He would not know definitely that a decision had been arrived at to make a recommendation either one way or the other.

101. So the recommendation for a change of Bank Rate would come from the Committee of Treasury?—Yes.

102. I should like to know whether, in the opinion of Sir Ernest, this class of business man, the class of merchant banker from whom the Directors of the Bank are largely drawn historically, by reason of ancient tradition, is suited to modern conditions?—There again, you ask me a question that is rather difficult to answer. I think, if you review the elections of Directors, you will find that the recent tendency has not been to follow quite what was the old historical tradition, but that there has been a tendency to break new ground in recent years.

103. *Mr. Newbold*: On what principle are they elected? Are they selected as stockholders, are they selected as experts, or as representative of certain phases of economic life?—They are elected as men of good credit, first-class credit in the City, who are associated with some form of actual trade, be it foreign trade or be it home trade. They are not selected at the time as bank stock proprietors, though they must be bank stock proprietors before they can be elected, but as men who not only have knowledge but can bring to the Court information and knowledge as to what is proceeding in various spheres of commercial business, who can keep the Bank well posted with reliable information as to questions of credit, questions of industry, as to the prosperity or otherwise of industry, as to the trend of business as between this country and certain foreign countries.

104. I went through the lists of Directors over a period, 1889, 1899, 1909, 1919, 1929, the other day, just to see what was the general trend, the general line of business or of economic activity in which they were engaged. I noticed that there had been quite a considerable change of composition in the last 10 years but still the industrialists are very weakly represented. The Directors of railway companies and shipping companies, I notice, are very prominent. There is one representative of the steel industry, but I think that cotton, engineering, and many other branches of industry are quite unrepresented. I notice that the brewing and distilling industry is not as strongly represented as it used to be, still it is not quite as representative of the modern development of industry as one might have expected?—There has never been any idea that members shall be chosen strictly as representatives of a particular industry, or particular class, or particular trade, definitely as representatives; that is to say, that anybody should be chosen to come and represent that industry as a recognised representative of the industry. If he is informed regarding the affairs of a particular industry, so much the better, but not to come as a recognised representative.

In connection with that, I should like just to make one remark because one knows that there have been recent cases where, in connection with Central Banks, it has been laid down in one or two instances that the Board shall consist of so many representatives of, say, agriculture, so many representatives of, say, finance, so many of industry, so many of commerce, and I have been told that, in some of those cases, the experience which they have had is—as it was put to me once—a vicious principle. For this reason. We will say that an industry—I will not particularise the industry—is to provide a representative. The tendency for that representative—and I am told that this was experienced over and over again—is always to look at every question that comes up from the point of view "How does that affect my industry, is it in the interest of my industry, or is it not?" and to judge the question from the point of view of his industry and from that point of view alone. Now, the whole theory of the Bank of England is to get a body of men who are in a position to take a detached view, who can afford to take a detached view, who are of such standing and credit that they can be relied upon to sink all personal feeling in taking a broad view of the problems which may be submitted to them, and I have been told—I have been advised, I should say—"So far as you may be able to do so, do not encourage the appointment of representatives of particular classes of industry."

105. But, do you not think that, acting on that principle, there is the same danger of the over-stressing of the point of view of the merchant bankers?—I do not think there is the same danger, no.

106. Why?—They are not appointed by the merchant bankers. If you are the nominee of a certain class or group, you feel that you must serve the interests of that class or group, or that class or group may say, "Make room for someone else." That does not apply to any merchant banker, and I think I can say, as one who stands entirely outside this, not having been appointed from outside the Bank, that, in my experience, I should doubt whether it would have been possible to have collected, by any other method, a body of men who do, in fact, as I can bear testimony, bring so absolutely unbiased and disinterested a judgment to bear on every question that is put before them.

107. *Mr. Keynes*: There is an ancient tradition, mentioned, I think, by Bagehot that there are certain firms of merchant bankers who consider themselves more or less entitled to serve by virtue of heredity. Is there any truth in that?—None whatever.

108. *Mr. Newbold*: I had that statement made very definitely to me by a critic of the Bank of England yesterday?—It is absolutely untrue.

109. But it is very strange how certain merchant bankers have members of their firms appearing on the Court of the Bank over a period of 50 years. As fast as one goes off, another comes on. That is the kind of thing that is likely to lodge in some people's minds?—I think, if you will examine the records, you will find at any rate so far as recent years are concerned that it is not true in more than one case that the member of one firm has ever been succeeded by another member of the same firm. During recent years, certainly.

110. There has been a continuity in the merchant banks since 1889, I believe. I checked this the other day?—No; pardon me; there has always been an

interval, except once, so far as I can remember. Mr. Lubbock may be able to support me. I think I am correct in saying that there is only one instance that I know of in which there has been an immediate successor, and that was where a deceased Director was succeeded by another who had previously been a Director of the Bank of England, but he had had to retire on joining a firm which already had a partner a member of the Court. That is the only occasion, I think you will find, so far as I am aware, certainly in recent years.

111. I took my selection over 10 year periods; that is probably how I came to that erroneous view, but I wanted to have it cleared up quite definitely?—You must bear in mind that, if the names of representatives of certain firms do appear, it is generally the result of seeking for somebody who is of the very highest financial standing in the City of London, whose sources of information which he can place at the disposal of the Bank are of the widest possible description.

112. *Chairman*: Heredity may be of some value?—Heredity may be of some value in the case of a firm. *Chairman*: Hereditary attributes may be transmitted.

113. *Mr. Keynes*: When a man has once been elected a Director, does his re-election depend upon whether he has proved himself useful or capable?—I do not know that I ought to be asked to sit in judgment on a Court of Directors who have recently done me the honour to elect me one of their number under exceptional circumstances.

114. Is there a retiring age for Directors?—There is. That was introduced some 12 years ago. It is 70.

115. There is another ancient tradition of which, I think, Professor Gregory also has heard, that former Governors and Deputy Governors are members of the Committee of Treasury. I gather from what you have told us that that is untrue—or erroneous?—I think you will find it mentioned in Bagehot.

116. That is not the case now?—Now the Governor and Deputy Governor are ex-officio, the rest are elected by ballot. It is customary to elect the last occupant of the Chair; if a Governor has just retired naturally it is customary for him to obtain re-election in the ballot in order to retain the value of his advice and experience gained during his recent service as Governor, but in point of fact the only two ex-officio members are the Governor and the Deputy Governor for the time being.

117. *Professor Gregory*: In previous Parliamentary and other inquiries on the constitution of the Bank, I think it was always understood that the Directors were elected from young men before they had very much experience of the City, in order that they might acquire the necessary experience by the time they came to serve their term in the Chair. Is that more or less the practice of the Bank of England, or has it been abandoned?—No, it has not been abandoned but it has been modified; that is to say, that some are elected under those conditions, some are elected in order to bring a maturer experience gained in other service, as has been the case in recent years.

118. *Mr. Brand*: I suppose anybody before he becomes a member of the Committee of Treasury has to be proposed? It is not open to the Court of Directors to vote for anybody they like?—It is open to the Directors to vote for a certain fixed number. Each member of the Court is invited to vote for a certain fixed number; it is a secret ballot.

119. *Mr. Bevin*: All the members stand nominated really?—Any member may be regarded as a candidate.

120. *Mr. Keynes*: The organisation which you have described to us of the Comptroller and Advisers, a sort of higher Civil Service inside the Bank, is a very new thing?—It is. It is a matter of a few years and is still in course of development.

121. It is a very important development of the Bank since the War. They have been gradually developing and evolving what you might call a higher Civil Service, which previous to that scarcely existed in the Bank?—There was formerly no need for it. What has brought the need into existence was the intimate relations which we were in the course of establishing with foreign Central Banks, the need of paying frequent visits to them and receiving visits from them.

122. But I think the duties of the advisers are not limited to foreign affairs, are they?—Primarily foreign affairs, but not entirely; they are also engaged in the matter of statistics and so on, the application of statistics, advising on questions connected with rationalisation of industry and so on.

123. *Sir Thomas Allen*: Would the department also embrace research on credit?—No. The collection of data to enable research to take place—undoubtedly; and they take part in the application of the data collected.

124. *Mr. Lubbock*: You have not mentioned the Chief Cashier—of course, the Chief Cashier goes on as before?—Yes. The Chief Cashier, I think I may say, even though I am an ex-Chief Cashier, is really the senior active official of the Bank, seeing that he is in charge of the department entrusted with the task of carrying out all the responsible banking duties of the Bank, the duties which are not defined by more or less definite rules as, for example, the duties of the Accountant's Department which is concerned with the management of Stocks.

125. *Mr. Keynes*: Is there any expert of the Bank who studies prices at home and abroad, wages and so on?—Yes.

126. *Chairman*: Is that in the Statistical Department?—That is in the Statistical Department.

127. *Mr. Keynes*: Not merely an official who compiles figures for the use of the Governor, but who interprets them?—Who interprets them. Quite.

(*Adjourned till to-morrow, Friday, the 29th November*, 1929, *at* 4.30 *p.m.*)

SECOND DAY.

Friday, 29th November, 1929.

PRESENT:

The Rt. Hon. H. P. MACMILLAN, K.C., *Chairman.*

Sir THOMAS ALLEN.
Mr. ERNEST BEVIN.
The Rt. Hon. LORD BRADBURY, G.C.B.
The Hon. R. H. BRAND, C.M.G.
Professor T. E. GREGORY, D.Sc.
Mr. J. M. KEYNES, C.B.
Mr. LENNOX B. LEE.
Mr. CECIL LUBBOCK.
The Rt. Hon. REGINALD McKENNA.
Mr. J. T. WALTON NEWBOLD.
Sir WALTER RAINE.
Mr. J. FRATER TAYLOR.
Mr. A. A. G. TULLOCH.

Mr. F. W. LEITH-ROSS, C.B.
Mr. G. ISMAY, *Secretary.*

Sir Ernest Musgrave Harvey, K.B.E., Deputy Governor of the Bank of England, recalled and further examined.

128. *Chairman*: Sir Ernest, we are obliged to you for returning to-day. You had just reached the stage when we adjourned yesterday of placing in our hands a copy of the Bank Return, and were about to expound its meaning to us. I think you might take up the thread of your evidence at that point?—Before I begin, Mr. Chairman, I should just like to say that I saw the Governor after I left the Committee yesterday, and that he asked me to convey to the Committee an expression of his very great regret that he had been unable to attend, and to thank you for the message that you conveyed to him through me. I am glad to say that he has been able to go away to-day. Certainly when I saw him last night he was in no condition to attend to any business, but he is in great hopes that after an absence of four or five weeks he may find himself sufficiently recovered to be able to come and see you at some future date, and deal with the major questions of policy which no doubt you might wish to talk to him about.

129. We are much obliged, Sir Ernest; I am sure we all sincerely hope that he will speedily recover.—There was one question which was dealt with yesterday, and it is a question which obviously, I think, is one to which the Committee attach very great importance—as naturally they must—to which I should like to refer again this afternoon, the question of the creation of credit by the Bank of England. But before I do so I should like to deal with the statutory Bank Return, because I think when I have just run over the Return and explained it in some detail for the benefit of those members of the Committee who may not be very familiar with it, it will enable me to make more clear the remarks which I should like to make with reference to this question of the creation of credit.

130. If you please?—Now, if I may take the copy of the Bank Return which has been circulated, the Return, as no doubt the Committee know, is really based on a form of return which was prescribed by the Act of 1844. As published at the present day it differs in one or two respects from the form there laid down, partly as the result of the legislation which was passed last year when the currency note issue came to an end and was transferred to the Issue Department of the Bank of England, and partly as a voluntary act on the part of the Bank, to which I will refer later. Now, the Act of 1844 was the first occasion on which it was decreed that the Bank of England should be divided into two Departments—the Issue Department and the Banking Department. It ordered that the whole of the gold held by the Bank should be placed in the Issue Department, except such moderate amount as might be required for the ordinary day-to-day needs of the Bank in its Banking Department in connection with the business between itself and its customers. The provision included in the Gold Standard Act, which relieved the Bank of the necessity of cashing its notes in current coin, left the Bank really without the need to carry any gold in its Banking Department, except possibly just the trifling amounts of gold which are always being received from the public. At the present day gold is constantly trickling in from circulation, and a certain amount passes into the Bank, but it only passes *through* the Banking Department. The Committee may therefore take it that the amount of gold coin and bullion which is recorded as being held in the Issue Department is to all intents and purposes the whole of the gold coin and bullion which the Bank now hold, the amount in the Banking Department being quite trifling.

The original Act of 1844 fixed the amount of notes which the Bank might create at a figure of £14,000,000, plus the amount of gold held in the Issue Department. That figure of £14,000,000, generally termed the fiduciary issue, was allowed to be covered by securities. The nature of the securities was not limited in any way, except that the Act provided that the Government debt, which is a book debt due by the Government to the Bank, should form part of the securities of the Issue Department. As regards the remaining securities which the Bank may hold, the Bank was at that time authorised to hold a limited amount of silver bullion at its current market value, but that provision became almost immediately a dead letter and it was not the practice of the Bank to hold silver bullion. Apart from the Government debt and such silver bullion as the Bank might have held, which was strictly limited in amount, the nature of the securities held was left to the discretion of the Bank, and the only limitation which the Bank have felt to be imposed upon them arose from the provision to which I referred yesterday as being contained in the Tonnage Act, which precluded the Bank from dealing in wares and merchandise. The Bank were advised that this would probably be held to exclude them from holding shares or debentures of any company so dealing. Apart from that they were left an absolute discretion as to the securities held.

I ought, of course, to mention that, when the currency note issue was amalgamated with the bank note issue the amount of the fiduciary issue was increased from the original sum of £14,000,000 (plus certain small sums which the Bank under that original Act had been authorised to add to the £14,000,000 in respect of the lapsed issues of other banks which originally had the power of issue) to £260,000,000. Therefore, at the present time the total of notes which the Bank can create is limited to £260,000,000, plus whatever amount of gold coin and bullion the Bank may from time to time hold in the Issue Department. The new Act made provision for possible increases and decreases of that sum of £260,000,000. Such increases or decreases may be effected on the request of the Bank, subject to the assent of the Treasury, and it is stipulated under that Act that in the case of an increase the consent of the Treasury, which must in each case be for a period not exceeding six months, may be renewed, provided that consecutive renewals do not extend the period beyond two years. If the period of two years were reached it would then be necessary for the matter to be submitted to Parliament for Parliament to decide whether the increase should be continued or whether it should cease.

131. I observe, Sir Ernest, that any Minute of the Treasury authorising an increase of the fiduciary issue has to be laid before both Houses of Parliament. —That is so.

132. That is in Section 8, Sub-Section (3) of the Currency and Bank Notes Act of 1928.—That is so. Now, on the liabilities side of the accounts of the Issue Department the amount of the notes created is divided into two figures, the total in circulation and the total in the Banking Department. I should like to make it clear that the total of notes in circulation means, in fact, all notes that have passed out of the custody of the Bank of England; that is to say, it includes not only the notes that are actually in circulation amongst the public, but also all the notes that are in the tills and the reserves of the banks, and notes which are set aside as cover for the issues of banks in Scotland and Northern Ireland, to the extent to which those issues exceed limits prescribed by Parliament. At the present time the average amount of the notes so set aside is about £24,500,000.

133. *Mr. Keynes*: That is for Scotland?—Scotland and Northern Ireland.

134. The two together?—The two together; that is the average of recent figures. The other figure, of £37,000,000 odd, is the notes which remain in the custody of the Bank and form part of the assets which the Bank is entitled to hold in the Banking Department as a reserve against their liabilities in that Department.

135. *Chairman*: The figure is carried down?—The figure, you will notice, is carried down into the Banking Department as notes. As regards the assets of the Issue Department, the Government debt, I think, has remained at that figure since 1834; it is the remains of a rather larger debt which at one time existed, the debt having prior to that date been approximately equivalent to the amount of the proprietors' capital.

136. What is the form of the voucher that you hold for that?—We have no voucher; we have no document which represents security for that debt. It is entered as a book debt in the accounts of the Public Exchequer, and it is referred to in certain Acts as a debt due by the State to the Bank, but there is no actual document that is held as security. It is merely a debt in account.

137. *Mr. Tulloch*: May I ask whether it is an interest-bearing debt?—It is an interest-bearing debt. When the Bank was founded it was founded for the purpose of lending money to the Government, and the whole of the capital subscribed was really for the purpose of making a loan to the Government. The interest at first commenced at eight per cent., but it remained at that figure for a very brief period. Within 15 years it had sunk to 6 per cent. It rapidly sank further, and in the earlier part of last century it had practically fallen to 3 per cent. In 1903 it was reduced to 2¾ per cent., and 11 years later to 2½ per cent., but the rate of interest is a matter of no concern nowadays to the Bank, for this reason, that in the Act passed last year it was provided that the whole of the net profits of the Issue Department should be paid over to the Government. Consequently whatever the rate of interest paid it is merely a payment by the Government of money which they take from one pocket and put into the other; it does not concern the Bank of England any longer.

Other Government Securities, the second item, consists of any sort of direct obligation of the British Government. There may be long-dated securities, short-dated securities, Treasury Bills, or Ways and Means advances, but at the present time the bulk is in the form of Treasury Bills. To that extent, therefore, I may mention that when there is talk about the high rate of interest that the Government pays on Treasury Bills it is not all money paid away by the Government to the public; whatever the rate may be it is received back by the Government in the profits of the Issue Department to the extent of the Treasury Bills held in that Department, and, as I say, by far the larger proportion of that item consists of Treasury Bills.

Other Securities consists of all other securities of whatever nature other than the following item of Silver Coin to which I will refer in a moment. As I say, it is left to the discretion of the Bank to decide the securities which it will hold, although under the Act passed last year the Bank are required to keep the Treasury informed as to the nature of the assets held in the Issue Department and of the transactions which take place in regard to those assets, which, of course, are really for account of the Government who are the recipients of the profits of that Department. That item consists at the present time entirely of bills, partly domestic, partly foreign.

The other item which appears here is Silver Coin. When the transfer of the currency notes took place to the Bank the Government were the holders in the currency note account of a very considerable sum of silver coin which they had had to take out of circulation owing to the great redundancy of silver which at that time existed as the result of the very large issues which had been made during and shortly after the War. It was in order really to find a home for that silver that authority was given by the Act to the Bank to hold a sum not exceeding £5,500,000 of silver, but that item is gradually being reduced as the circulation of the country requires additions of silver coin. It will gradually disappear but, of course, as it disappears its place must be taken by other securities. The securities are a fixed amount and, therefore, any operations in the securities of that Department cannot affect in any way the volume of credit which exists, seeing that if securities are sold they must be replaced by other securities.

138. *Chairman*: In order to maintain the £260,000,000?—In order to maintain the £260,000,000.

139. *Lord Bradbury*: Is there anything definitely prescribed as to the division of the securities items between Government Securities and Other Securities, or is that entirely within the discretion of the Bank? —It is entirely within the discretion of the Bank.

140. The bulk of them here are Other Government Securities. It would be theoretically in the discretion of the Bank to reverse those figures and make the Other Securities £235,000,000 and the Other Government Securities £8,000,000?—It would.

141. *Mr. McKenna*: You spoke of issuing the silver coin held. It is issued to the customer at its face value?—At face value.

142. And you transfer from the Issue Department silver as it is required for currency?—As our stock of silver coin in the Banking Department falls by demand from the community we restore it by transfers of coin from the Issue Department to the Banking Department.

143. At its face value?—At its face value, replacing the silver in the Issue Department by securities which we transfer to the Issue Department.

144. Last year that amount was taken into the Exchequer for full credit, thus forestalling the profit that would be made from the issue of silver currency in future years?—That profit had already been forestalled when this silver coin was originally issued.

145. It had already been forestalled?—It had been issued and the Government had then had the profit.

146. The Exchequer had already forestalled it?—That is so.

147. *Mr. Keynes*: Are the securities in the Return taken at cost?—At cost, and at the close of every half-year, they are valued at current market prices. If there is any depreciation, provision is made out of the income of the Department for them to be written down to the new prices.

148. *Professor Gregory*: At the expense of the Bank?—At the expense of the profits of the Issue Department.

149. *Mr. Keynes*: Are they written up?—Well, I am sorry to say that the occasion has not yet arisen when there has been appreciation, but that, in fact, is the intention.

150. *Lord Bradbury*: You said that Other Government Securities included a certain amount of Ways and Means advances. I take it that is comparatively small—the bulk of the Ways and Means advances are made by the Banking Department, is not that so?—That is so. The Ways and Means advances in the Issue Department are trivial, and are merely for the purpose of easy adjustment for Government purposes in securing the equalisation of the maturities of their Treasury Bills and for other similar purposes.

151. *Sir Thomas Allen*: Would you regard the present fiduciary issue as providing a sufficient basis for our modern English banking system?—The sufficiency of the fiduciary issue is dependent in very large measure upon the extent to which the bankers of the country may elect to hold their reserves either in notes or in balances at the Bank of England. If the bankers, for example, were to decide that they would prefer to hold a very much larger proportion of their balances in notes, it would mean that in reducing their balances in the Banking Department and withdrawing an exactly corresponding amount of notes in the Banking Department, it would leave the Bank with possibly at times a reserve which might look small having regard to the remainder of the Bank's liabilities. But the very reduction of the bankers' balances would, of course, very largely reduce the need of reserve by the Bank, because it is mainly in the bankers' balances that the Bank are liable to meet with withdrawals from their deposits. Government deposits, for example, cannot vary very largely. The Government does not accumulate money for the pleasure of seeing a large balance in its pass book. It only takes in money as it requires the money to pay out and the Bank might, therefore, confidently rely on the fact that so far as the public deposits are concerned a more moderate proportion of reserve might be sufficient than would be sufficient in the case, say, of the bankers' balances which are subject to withdrawal by the bankers to meet the withdrawals which they may incur from their own clients.

152. I have it in mind that the Cunliffe Committee considered that the gold reserve should not fall below £150,000,000, yet we note that on the 20th November the gold coin and bullion totalled £132,000,000. On or about that date the bank rate was reduced. Would you, therefore, think that the figure quoted by the Cunliffe Committee was too high or too low, and what would you consider to be a minimum of the gold reserve of the Bank?—I think it is fair to say that the Bank of England do not carry any fixed figure in their mind as at all times an adequate figure of gold. It must be obvious that the sufficiency of the gold held must depend upon the changing circumstances of the moment—what is the period of the year?—is it a period of the year when we may be subject to considerable withdrawals from abroad?—what are the liabilities which we know to lie ahead of us?—what, so far as we can measure, are the claims upon us by foreign countries which they might enforce at any moment? We have never considered, I think, that the Cunliffe Committee in mentioning £150,000,000 did more than consider a figure which in normal circumstances and having regard to the fact that gold in the pockets of the people had been replaced by notes would be a fair average figure, may I say. It is obvious that at one moment £150,000,000 might be sufficient, whereas at another moment it might be insufficient. We are not wedded to the figure of £150,000,000 in the least. I think there is good evidence of that in the fact that we have allowed the figure to be brought down. There is, however, one fact which must always be borne in mind. Whatever the figure named as the minimum below which we should not fall, the lower you put it the less our power of resistance in case of any crisis. The lower, therefore, you allow the figure to fall the more necessary it may be at times to take rather drastic measures for the curtailment of credit—for the maintenance of a comparatively high, or at any rate effective, rate. But we are not wedded to any figure. We judge the figure according to the circumstances of the moment, and in our judgment so far as we were able to estimate the circumstances of the time we considered that it was not unreasonable to allow that figure of £150,000,000 to be reduced to the figure at which it now stands.

153. *Lord Bradbury*: This question of the Cunliffe Committee's recommendation and the £150,000,000 is likely to be a matter of some importance, and I think it is very desirable that we should be clear in our minds as to what the Cunliffe Committee's recommendation was. Might I ask that Paragraph 41 of the Report should be read?

Chairman: Shall I read it?

Lord Bradbury: If you would be so good.

Chairman: Paragraph 41 reads: "The pre-war gold reserves were about £38,500,000 in the Bank of England and an amount estimated at £123,000,000 in the banks and in the pockets of the people. If the actual circulation of gold coins ceases and the whole of the gold is concentrated in the central institution, some economy is permissible in view of its increased mobility. On the other hand the aggregate amount of currency required will undoubtedly be larger. We accordingly recommend that the amount to be aimed at in the first instance as the normal minimum amount of the central gold reserve should be £150,000,000, and that, until this amount has been reached and maintained concurrently with a satisfactory foreign exchange position for a period of at least a year, the policy of reducing the uncovered note issue as and when opportunity offers should be consistently followed. In view of the economic conditions which are likely to follow the restoration of peace, it will be necessary to apply this policy with extreme caution and without undue rigidity. When the exchanges are working normally on the basis of a minimum reserve of £150,000,000 the position should again be reviewed in the light of the dimensions of the fiduciary issue as it then exists."

Sir Thomas Allen: My difficulty on this is to know how far on questions of policy we should proceed with Sir Ernest or how far we should leave them to be dealt with when Mr. Norman comes before us. I do not want to pursue this matter unduly if at some later date we are going to take up all questions of policy with Mr. Norman. If you think it advisable I would rather hear what Sir Ernest has to say in a general way and deal with this question of policy later.

Chairman: I think it would be better to postpone these questions because the considerations which animate the Bank in altering the bank rate are naturally questions of policy on which Mr. Norman will give us his evidence.

154. *Mr. Frater Taylor*: May I ask, Mr. Chairman, how the figure of £260,000,000 was determined?

Witness: I think, Mr. Chairman, I may say it was the figure that recent experience had shown to be necessary with a small reduction made in consideration of the fact that Southern Ireland would cease to employ our currency and would adopt their own currency, and that there would on that account be a return from circulation of notes no longer required. I may mention in passing that, although I have not got the latest figures before me, the reduction that was made at that time, which, if I remember right, was approximately £4,000,000, has already been exceeded by the notes which have been returned from circulation in Ireland. This shows that the allowance made has been more than met by the facts and notes are still returning from Ireland.

155. *Chairman*: The £260,000,000 was a figure based on experience?—Based on experience, yes.

156. *Mr. Keynes*: You said, Sir Ernest, that Other Securities included some foreign bills. Does that mean bills payable in foreign currency?—In foreign gold currency in a country on a free gold standard.

157. Is that an important part of the £8,000,000 or £9,000,000?—It is quite a considerable part.

158. *Mr. Newbold*: Have you any idea what proportion?—It varies. I might tell you the figure for last year which might be inaccurate for the figure of this year, because there is a constant variation. I could not state any proportion, for the simple reason, as I say, that it might be 30 per cent. one week, it might be 40 another, 50 another, or 60.

159. *Chairman*: Perhaps it would be sufficient if you gave a rough indication. (*Mr. Keynes.*) I am quite satisfied with Sir Ernest's reply that it is an important proportion.—It is an important proportion, sometimes more than 40 per cent., sometimes less.

160. *Mr. Brand*: Are these bills commercial bills?—Commercial bills such as would be acceptable for discount here, or in the case of a foreign country, such bills as would be acceptable for discount by the Central Bank of that country.

161. *Mr. Keynes*: You told us that the active circulation of notes as shown here includes notes held as reserve in their tills by clearing banks?—Yes.

162. Has the Bank of England any information as to the amount of notes so held?—No.

163. Can they form any estimate?—The only means we have of forming an estimate is to take the published figures of the banks and aggregate the figure which they give of cash in hand and at the Bank of England and then deduct from it the amount of cash which they held at that date at the Bank of England.

164. Would it be possible to ask for a weekly return from the bankers?—Certainly. Obviously this is a matter in which the relationship of banker and client arises, and even if the Bank can form an estimate it is not the Bank's business to state what the bankers hold in their tills. If the bankers like to disclose it, well and good, but we feel it is for them to do so and not for the Bank of England.

165. It is very difficult for the Bank of England to form accurate conclusions if they do not know what the active circulation of notes is.—We should welcome the information. As I say, we can form an estimate to that extent, although it is only approximate.

166. *Mr. Keynes*: Is there any reason why the joint stock banks should not be required to make a return?

Chairman: Is not that for the customer to say?—I should like to hear the bankers.

167. *Mr. Keynes*: The Bank of England would welcome it?—Certainly; we should be very pleased to have the figures before us.

168. As an ultimate determiner of policy you are being deprived of very important data?—Even if we were given the figures we should not know how much of those notes was necessary for current business and how much for reserve.

169. No, that would have to be calculated over a period of time. The fluctuations, anyhow, would be important. Supposing a joint stock bank is varying the proportion of its reserves which it holds in notes and in Bank of England deposits respectively, that throws you out in the inferences which you ordinarily make from fluctuations in the latter?—Yes, in theory it may; in practice I should be inclined to think that so far as our knowledge goes the holdings, certainly so far as they are notes held in reserve by the banks, are of a fairly constant character. But that is merely an opinion again; it is purely a guess.

170. There is no reason of public policy so far as you are aware why you should not know?—I know of none.

171. You said that the whole of the profits of the Issue Department now go to the Treasury, and the profits of the Banking Department alone go to the Bank. If the Bank were to ask for an increase in the fiduciary issue of £20,000,000, the first effect of that would be to transfer £20,000,000 of notes from the Issue Department to the Banking Department and £20,000,000 of securities from the Banking Department to the Issue Department?—That is so.

172. Therefore, assuming interest at 5 per cent. it would transfer £1,000,000 per annum from the pockets of the Bank to the pockets of the Treasury?—That is so, but the need would not arise until the banking reserve of the Bank was already low, and in consequence probably the Bank's holding of securities would have already increased. Thereby the Bank would have gradually accumulated securities which would be available to provide for the transfer.

173. You told us yesterday, with which I agree, that it was very important for the Central Bank not to be troubled by the necessity of earning profits, it should be beyond care in that respect. Is it conceivable that the fact that the increase in the fiduciary issue would transfer a large amount from the pockets of the Bank to the pockets of the Treasury might lead the Bank to delay increasing the fiduciary issue longer than they otherwise would?—No.

174. It is conceivable?—I should say, speaking for the Bank of England, that it is quite inconceivable that that factor would receive a moment's consideration.

175. *Lord Bradbury*: On that may I put quite a simple proposition to you? Assuming there were an increase in the fiduciary issue and the Bank of England transfers £20,000,000 of securities from the Banking Department to the Issue Department and receives £20,000,000 of notes into the Banking Department, I assume that those £20,000,000 of notes have, from the point of view of the Banking Department, a certain earning capacity when they get there?—None.

176. If they go into reserve they have not, but if you did not get those notes into the Banking Department and had to strengthen your reserve by selling securities, you would obviously lose the earning value of those securities?—I am afraid I do not follow your question. I understood you to say that the notes when transferred to the Banking Department——

177. The Banking Department has £20,000,000 more cash which presumably it can use either to strengthen its reserves and so avoid parting with a revenue producing asset in order to strengthen its reserve, or if it does not want to strengthen its reserve, it might use it to earn money?—But the notes must remain there unless they are withdrawn by the public. (*Lord Bradbury*): True, but the reason of asking for it is to strengthen your reserve instead of parting with securities on the market.

178. *Professor Gregory*: If you were suddenly to increase the fiduciary issue from the present figure of £260,000,000 to £280,000,000 and to replace £20,000,000 of the assets of the Banking Department by notes, transferring the securities to the Issue Department, you could, if you wanted to do so, having a larger reserve, lend £20,000,000 more than you did before?—That is true.

179. *Mr. Keynes*: Supposing this year there were large withdrawals on account of the Christmas

Holidays, the Bank's reserve might look, from the point of view of the public, low. Therefore, it might be better to show more reserves in the Banking Department and less in the Issue Department. There is no reason why this change should not be adopted if the profits of the Bank of England are so large that a million a year is no concern one way or the other?—I do not admit that.

180. If that is not so, is it not saying rather too much to say that the Bank might not be influenced?—No, for the reasons that I have mentioned. If I may take your instance that the reserves at Christmas might be drawn down to a figure which would look undesirably low, let us say instead of £37,000,000 at the present time in notes it were drawn down to, say, £17,000,000, in the meantime the Bank would have acquired £20,000,000 of earning assets. Whilst that £20,000,000 of notes had been withdrawn, unless the Bank acquired £20,000,000 additional earning assets the market would be deprived of £20,000,000 of credit.

181. If it allows its published reserves to fall it will still get these profits. The Bank regularly derives profits from the deposits at the end of the year. It would not get any more revenue from increasing its fiduciary issue; this would normally represent a transfer from the Bank to the Treasury. It is therefore perhaps injudicious for the amount of fiduciary issue to be linked up with the question of division of profits between the Treasury and the Bank of England. I see no reason why the contribution of the Bank of England should be reduced or increased because of the fiduciary issue. (*Professor Gregory*): I should like to follow that up by putting the question that Mr. Keynes put to you, rather more positively, and asking you your own personal opinion as to whether it would not be better in the interests of the Bank of England generally that you should pay a franchise tax to the Government on your net profits, rather than on the profits of the Issue Department? (*Witness*): Are you speaking of the total profits derived from both Departments?

182. *Professor Gregory*: Yes. At the moment it is not on the net profits that you pay tax to the Treasury, but on the profits of your Issue Department. Suppose you stopped with that and subsequently paid the franchise tax on your net profits rather than on the profits of the Issue Department?—That is a question, Mr. Chairman, that I think I should like to have time to consider. It is a question of high policy, which I should hardly feel at liberty to deal with this afternoon.

183. *Mr. McKenna*: The question raised arises as the result of a bargain with the Treasury, does it not?—Quite.

184. That bargain could be altered at any time by agreement between both parties?—It is in an Act of Parliament; what Parliament has passed, of course, Parliament can undo.

185. *Chairman*: The question has been raised and it will be on record. I think we might proceed now?—If I might now take the items of the Banking Department, the capital of £14,500,000—that, as I said before, is really a figure which was arrived at by sums which were contributed from time to time by private citizens for the purpose of making advances to the Government. The Government Debt was originally almost identically the same figure; I think part of it was repaid by the issue of three per cent. stock to the Bank in place of a corresponding amount of old book debt. The Rest consists of undistributed profits, and the normal practice is not to allow it to fall below a figure of £3,000,000.

186. *Professor Gregory*: Is any proportion of the capital, to the knowledge of the Bank, held by the joint stock banks at the present moment?—I do not know. I should doubt it.

187. Would the Bank have any objection to the holding of Bank stock by a joint stock bank?—No, I do not think so. There is no limitation of the holding of Bank stock, and I do not know that the Bank, who regard it as more or less an ordinary trustee investment, would object to anybody holding the stock. If the idea in your mind is that by the purchase of stock a joint stock bank might obtain a measure of control, that is not possible unless it buys the whole of the stock. (*Professor Gregory*): The idea in my mind was whether there might not be a tendency in this country towards the situation in the United States, where the Central Bank is in fact owned by the Member Banks.

188. *Mr. Frater Taylor*: Is the stock generally held just in the same way as the stock of any joint stock bank is held?—Entirely. There is a very large body of holders.

189. *Mr. Lubbock*: 14,000, I think?—14,000.

190. *Mr. Newbold*: Must all holders be British subjects?—No.

191. You may have foreign stock holders?—Certainly.

192. Have you any knowledge of what proportion is foreign, because it is extremely important in the national interest?—I should say it is extremely small. I cannot tell you the proportion, but no holder, whatever his holding, has more than one vote—no matter how much he holds. He has no vote at all unless he holds £500, and if he holds £5,000,000 he has one vote.

193. Is it usual for the stock to be held in small blocks or large blocks, or does it vary; there is an impression that it is in great blocks?—No. There are a large number of small holders.

194. *Chairman*: On the figure you have given us of roughly 14,000 holders it works out at an average of about £1,000 each. (*Mr. Newbold*): I know it works out at that average, but I have spent the last 15 years in searching stock lists and, frankly, those averages do not impress me at all.—(*Witness*): No; it is very well spread.

195. I was wondering whether there was a large number of small holders and large ones embedded among them, as in the case of joint stock companies?—No, I should say that was not the case.

196. Would you have any objection to the list of your proprietors being made known? It would clear up a lot of trouble in the country, you know. (*Chairman*): Is it not at Somerset House? (*Mr. Newbold*): No; it pre-dates that by hundreds of years! (*Mr. Lubbock*): You could probably give some figures about it. (*Chairman*): It would be undesirable to give actual names of the holders, but the kind of information that might be given would be, first of all, the number of holders, secondly the average holdings, then the maximum and minimum holding, and, if you please, the percentage of nationalities. That would not disclose the actual names of individuals. (*Mr. Newbold*): No. I only want the composition. (*Witness*): I think figures could be prepared which would give Mr. Newbold the information he wants.

197. *Mr. Newbold*: If we could have some figures of the comparative interests and proportions, what is held by merchant bankers, what is held by private individuals. The latest stock list I have seen is somewhere in the thirties; there seems to have been nothing since?—I should say the great majority, from my recollection of reading the list of accounts, is in the hands of private persons.

198. *Chairman*: We should be glad if you could have a table drawn up in which, without committing any breach of confidence, you could put the number of holders up to £1,000, £1,000 to £10,000, something of that kind. You will turn that over?—Yes. I think I had reached the Proprietors' Capital, and the Rest which, as I stated, is usually kept at a figure of not less than £3,000,000. The Public Deposits—these include all the Government balances at the Head Office and at the branches. The Exchequer, the Paymaster-General's Account, Savings Banks monies passing through the account pending investment, and so on. The Commissioners of National Debt have considerable accounts through

which the monies of the various funds which they administer are passed and through which the monies are invested. There are the Dividend Accounts of Government dividends, that is, monies which have been provided to meet dividend warrants which have been issued and not yet presented.

199. Are these various accounts in the nature of current account balances?—Yes.

200. They are among your customers, so to speak?—They are.

201. And this represents the amount of some of their credits?—Yes; all public monies. I should say that " Public Deposits " includes accounts the funds to the credit of which are public monies, and for the opening of which accounts authority has been given to the Bank by the Treasury. No public officer can walk into the Bank of England and say that he wishes to open an account and place money to the credit of that account and have it regarded as a public account. Every account must be authorised by the Treasury. There are various accounts into which tax monies are placed as collected, through which they are passed and from which they are transferred to the Exchequer.

202. *Lord Bradbury*: These are exclusively home Government accounts. If you have accounts of Governments of other parts of the British Dominions you put them under " Other Deposits "?—Yes.

203. *Sir Walter Raine*: Will you to-morrow transfer £50,000,000 for the dividend you have mentioned as payable on Monday morning? Will you transfer it at once?—No; not £50,000,000. From the experience we have as managers of the National Debt, we can estimate to a very close figure what sum will be required to meet dividend warrants presented on Monday, and it will be the business of the Treasury, in arrangement with us, to supply to the credit of that Dividend Account such a sum as will, according to our experience, be sufficient to meet the dividends presented on that day. They will not put the whole of the dividends, they will only provide such sum as we know from experience when the dividend date falls on a Monday will probably be presented on a Monday. If it were a Saturday, we should know that the amount of dividends cashed would be less, and they would not require to make the same provision.

204. *Mr. Frater Taylor*: Will that mean a temporary increase in Public Deposits then?—No; because the money will be paid in in the morning and will be paid out to the holders of dividend warrants in the afternoon.

205. *Sir Walter Raine*: What will happen next Wednesday when you draw up this Balance Sheet again. The cheques for the £50,000,000 will have been sent out by Monday morning. Supposing £40,000,000 have been paid by Wednesday, what will happen to the other £10,000,000, so far as this Balance Sheet is concerned?—Nothing; it will not figure there, the other £10,000,000 which have not been provided will not figure in the Balance Sheet.

206. Unless the Government provide the wherewithal, it does not figure here?—Unless the Government have provided themselves with the money in order to meet it and have kept it on their own Exchequer Account and have not yet transferred it to the Dividend Account to meet the dividends; but, seeing that always, at these periods, it is necessary for the Government to have recourse to the Bank of England for a certain amount of Ways and Means advances, they will not borrow that money until the day on which the money is required to meet the dividends. To the extent to which they have required to borrow money from the Bank to meet the dividends, there would be an increase in the Government securities and an increase in the bankers' deposits because they will, as I say, not borrow the money until they need to pay it out.

207. *Mr. Frater Taylor*: Is the Exchequer Account to which you have referred a separate item altogether and apart from the Banking Department?—It is a separate account in the " Public Deposits."

208. So this is not really the Balance Sheet of the Bank that we are looking at; it is merely of a department?—Oh! no; this is the Balance Sheet of the Bank. The Exchequer is one of the accounts included under the head of " Public Deposits." " Other Deposits " is now, as you see here, divided into two items—Bankers and Other Accounts. This is not a statutory requirement, but was a voluntary disclosure of information which was made with the consent of the bankers who, when consulted by the Bank of England, very readily gave their consent to the publication of these figures, which it was felt would be of value to the market in estimating the position as between the bank and the market

209. *Mr. Tulloch*: May I ask you if these are only Clearing Bank balances, or are any other balances included?—These bankers' accounts are all of British banks whose main functions are conducted in this country—the Clearing Banks and banks in the Provinces, if they are British banks, that have accounts with the Bank of England. It includes the balances which they all hold at our branches. It does not include banks which, though British banks, are in the main operating in the Dominions or in foreign countries, such as the Australian, Indian, Canadian, South African and South American banks.

210. *Mr. Keynes*: It includes Scottish banks?—Scottish banks too.

211. And Northern Ireland?—And Northern Ireland.

212. *Professor Gregory*: But not the Bank of Ireland?—No; not the Bank of Ireland.

213. *Chairman*: Does not the Bank of Ireland operate in Northern Ireland as well as in the Free State?—It does, but it is not now a British bank in the United Kingdom.

214. *Mr. Frater Taylor*: The fact that these other banks bank with you means that they come under your reserve. It is a convenience, in a way, is it not?—Yes. I should say that practically none of them are solely customers of the Bank. They are far more active customers of the other banks. They keep accounts with us, they keep substantial balances with us; as I think I described yesterday, possibly, as a tradition from old times, they like to feel that they have got a safe port in a storm, somebody to whom they can go in times of difficulty, to whose bank parlours they have the right of entry and the right to come and ask for accommodation, if the accommodation is not available to them elsewhere.

215. *Chairman*: And their balances will be under the head of " Other Accounts "?—Their balances will be under the head of " Other Accounts "—the Bank of Ireland, for example, all the banks which have just been mentioned, any London office of a foreign bank which happens to have an account, though they are few, any Colonial bank, and also the Indian Government which has been mentioned.

216. Foreign Central Banks?—Foreign Central Banks. They are all included in " Other Accounts."

217. *Mr. McKenna*: Arising out of the discussion yesterday upon the deposits of the Central Banks: in certain cases you have taken money for deposit privately and then used those deposits for your clients on the market. Take the case of a particular bank; for instance, you have an account for the Bank of X?—Yes.

218. The Bank of X places with you £100,000, with the request that you use that money for them, and you return to them all the profits made upon the £100,000. Either in practice or by express obligation, or implied obligation, can the Bank of X get that £100,000, or any part of it, on demand?—They have the right to come to us, to bring to us the assets which have been acquired on their account, and to invite us to discount those assets.

219. In practice, has that right ever been exercised by any of your customers?—Certainly.

220. If that right is, in practice, exercised, do these accounts really disclose the whole of your deposit liabilities?—Yes; I should say so most undoubtedly.

221. On paper certainly, but do they really?—What about a discount market broker who is a holder of bills and who has the right—an acknowledged right—to bring them to us to discount?

222. That is rather a different case; that is recognised in the ordinary course of business. If the Bank of X were banking with an ordinary commercial bank, this £100,000 would have been placed on current account with the ordinary commercial bank and it would appear as a deposit liability of that bank. The Bank of X lodging the money with you, uses that money in precisely the same way as it would use it if it were deposited with a commercial bank. The commercial bank would show it on its liabilities; the Bank of England does not. Is it not really in the nature of a current account?—I am trying to get the point to which your remarks are directed. Is there a fear in your mind that the total of the deposits put together—the deposits, for example, of all the banks—does not really show the total deposit liabilities because, in some way, these investments are taken out of the Bank of England deposits? I do not see why, because the Bank of England makes the purchase of the bills on behalf of the Bank of X, the position is in any way altered by that fact from the position which would exist if the Bank of X made the purchase itself and lodged the securities for safe custody with the Bank of England. We merely act as agents for the purchase.

223. If the Bank of X had made a deposit with you and it appeared in your accounts and you paid the Bank of X the precise return which you obtained on that money, that would be following, would it not, the ordinary course of business, except that instead of paying a fixed deposit rate you would pay what the deposit actually earned. Now, you do not adopt that course if you do not include the Bank of X money as a deposit, although it is repayable on demand, and you hold both the deposits and the securities outside your accounts. Have you not really got a greater liability than your accounts disclose?—Not a greater liability, it seems to me, than the liability which always rests upon us to discount practically the whole of the bank bills in the London market—a liability that may be imposed upon us at any moment.

224. All the bankers' deposits may be demanded, must be paid on demand, but they are all expressed in your balance sheet, and we know that you are under a liability to pay £58,000,000 to the bankers on demand. We know, further, that you are liable to pay £38,000,000 on "Other Accounts" on demand. Your accounts do not disclose the fact that you are liable to pay, on demand, all the money which you hold from the Central Banks?—Subject to our first having discounted those bills and created out of them the deposits.

225. You discount the bills yourselves——?—Yes.

226. It is really a demand from them?—No.

227. You discount the bills and meet the claim. You do not go to the outside market to discount the bills; you discount them yourselves?—Not necessarily.

228. You may?—We may.

229. *Professor Gregory*: I should like to ask you, Sir Ernest, whether the Central Bank, lodging monies with you and instructing you to invest them in bills, can draw on the existing deposit?—Not without discounting the bills.

230. *Mr. McKenna*: But the bills are discounted by the Bank of England on demand?—The money is sent to the Bank of England for the purpose of being invested in bills, and the instruction will be to invest in bills acceptable by the Bank of England, and those bills they expect to be able to discount, in case of need, in exactly the same way as every other holder of acceptable bank bills in the London market expects to be able to come to the Bank of England and discount bills.

231. *Mr. Keynes*: Is not the substantial point that the fluctuations in the amounts which are held by foreign banks is one of the most important factors determining the conduct of your business? If the amount of the foreign banks' balances is going down you draw different inferences from what you would draw if they are going up. Your accounts are so drawn up that that piece of information is only in the hands of the Bank of England and is withheld from me?—But if those funds are with another bank the information is only in the hands of that bank. It is not in the possession of either the Bank of England or anybody else.

232. Oh, yes. There are many other pieces of information which are withheld both from you and from me?—Undoubtedly.

233. But the main effect of this way of treating the account is that the information is withheld from me, but not from you?—Well, of course, to a certain extent we know a certain amount of the foreign claims upon the London market. Their inclusion here would be an indication possibly on which students of the market might be able to form some sort of estimate as to the volume of foreign claims on this market.

234. It is a very important point. I think I am right in saying that the Federal Reserve Banks of the United States have a precisely similar arrangement for receiving money from foreign banks and then investing for them in bills, but the Federal Reserve Banks publish the figures. Is not that the case?—Well, I did not know it; I was not aware that they did.

235. *Chairman*: Do you say they do? (*Mr. Keynes*): I believe they do. I shall have to verify that. (*Professor Gregory*): They certainly do in regard to the volume of business in bills conducted for foreign correspondents. (*Witness*): I had forgotten that.

236. *Mr. Keynes*: Publication has certain advantages, has it not? Some people criticise this bills of exchange system for foreign Central Banks mainly on the ground that the volume of securities held for a particular Bank can fluctuate without producing an effect on the market, whereas if it is a movement of gold it produces an effect. Some people say it is undesirable that you should be able to have changes in the amount of foreign balances without its producing an effect on the market, that it is a positive weakness to the Bank of England that the rest of the market should be unaware of fluctuations of this description.—But what of the position of the Bank of England who are entirely unaware of the extent to which foreign balances are held by other banks?

237. It would enable you to form accurate inferences if you had a statement from the bankers of their foreign balances, and I have no reason to think that you could not get that. Would it not be much better if we knew the fluctuation in the foreign balances?—Well, I should not like to commit myself to a definite answer.

238. *Chairman*: I think that is a question for Mr. Norman. It will remain on the record.—Yes, I should like him to answer that.

239. *Mr. Keynes*: Would it be possible to give us any indication in rough proportion of how the £38,000,000 of Other Accounts is divided between the four categories of British banks operating abroad, foreign banks, Dominion Governments and other accounts?—It would be possible, but I am afraid I cannot give them to you, because I have not got them in my notes and I have certainly not got them in my head.

240. *Mr. Keynes*: Would Sir Ernest consider whether it would be possible for him next time to tell us roughly what the average would be over a period of time? (*Chairman*): Information may be given to us, but it is a question of policy whether the publication of that information is desirable in the public interest as being likely to affect the market. (*Mr. Keynes*): I will put it, if you like, in the form of two questions. Could we be given confidentially roughly the proportion for last year and, secondly, is there any reason of public policy why it should not be published? (*Chairman*): We have a note of that and I will see that that point is considered. (*Witness*): I certainly could not commit myself to the production of that information. I am afraid I have been taking no notes; if I could be supplied with notes of these various points—— (*Chairman*): A transcript of the shorthand note will be transmitted to you in the course of the next few days.

241. *Professor Gregory*: In the case of any foreign correspondent—dealings in bills or any other earning asset, this figure of unspent balance would be included in the Other Accounts?—Certainly.

(*Adjourned until Thursday next, 5th December*, 1929, *at* 4.30 *p.m.*)

THIRD DAY.

Thursday, 5th December, 1929.

PRESENT:

The Rt. Hon. H. P. MACMILLAN, K.C., *Chairman*.

Sir THOMAS ALLEN.
Mr. ERNEST BEVIN.
The Rt. Hon. LORD BRADBURY, G.C.B.
The Hon. R. H. BRAND, C.M.G.
Professor T. E. GREGORY, D.Sc.
Mr. J. M. KEYNES, C.B.
Mr. LENNOX B. LEE.
Mr. CECIL LUBBOCK.
The Rt. Hon. REGINALD McKENNA.
Mr. J. T. WALTON NEWBOLD.
Sir WALTER RAINE.
Mr. J. FRATER TAYLOR.
Mr. A. A. G. TULLOCH.

Mr. F. W. LEITH-ROSS, C.B.
Mr. G. ISMAY, *Secretary*.

Sir Ernest Musgrave Harvey, K.B.E., Deputy Governor of the Bank of England, recalled and further examined.

242. *Chairman*: Have you been furnished with a print of the evidence that you have given us?—I have, thank you.

243. I am sorry it has been so late in coming. It has been delayed.—I have not been able to look at it yet. I received it to-day.

244. You were engaged, you remember, when we adjourned, in your analysis of the weekly account of the Bank of England and explaining the different items in it. I think you had more or less exhausted your comments on the return, and we asked a number of questions upon it. Will you resume at the point where you left off in your exposition?—Before I resume on the Bank Return, may I deal with the answers which I reserved last time to three questions?

245. If you please.—The first answer I reserved simply because I had not the facts before me. I was asked a question about the holders of Bank Stock.

246. Yes, I remember.—I see no possible objection to quite full information being given if the Committee think fit. I have had a careful analysis made of the existing holders of Bank Stock. The only information I could give last time was that the number of holders was 14,000. I find that the exact number is 14,378 at the present time. Of those holdings, 8,796—that is considerably more than half—are holdings of £500 and less; 2,583 are holdings of from £500 to £1,000; 1,980 are from £1,000 to £2,500. Thus between 13,000 and 14,000 out of the whole number of holdings are of £2,500 and less. There are larger holdings, but if I skip the intervening figures, there are 30 holdings of amounts over £25,000. Then I was asked a question regarding bankers' holdings of Bank Stock. There, of course, whilst we may see bankers' names or the nominees of bankers on our books we do not know the purpose for which they hold it. It may be their own, it may be simply held on customers' account, e.g., as security for an advance, but whatever the purpose, the total held by bankers—I am only speaking of bankers as we define them in the Bank Return—is under £500,000. I was asked a question about foreign holders. Of foreign banks there are none; of other accounts of foreigners if we may judge from the registered addresses, there are holdings for a total of about £57,000.

I said that I believed that a good deal was held by trustees. I find that of the amount held by British holders—and I include in that category holders within the Empire—the amount held in single names and the amount held in joint names which we assume are trustees, excluding amounts held by nominees of banks, are practically identical—sole names £6,000,940, and in joint names, £6,000,944.

247. *Mr. Brand*: Are those the nominal amounts?—The nominal amount of stock, yes. As regards the powers of the holders, under the Charter as it stands, no holder has more than one vote whatever the amount of his stock, but trustees are empowered to vote, holders in joint names having power to authorise one of their number to vote. At the present time, therefore, the voting control is enormously widely spread. Further—I think I mentioned last time; if not, I do so now—no holder can vote unless the stock has been in his name six months. That is really the extent of the protection which we have against control being obtained by anybody; the widely held nature of the stock and the fact that if anybody wishes to get control they have got to purchase from a vast number of holders and they have got to have held the stock for six months. I do not know if there are any other questions on this subject on which the Committee would wish for information?

248. *Sir Thomas Allen*: Is there a vote for each trust account?—One vote for each trust account. They may authorise one of their number to vote.

249. Do we take it that any holding in the Bank of England, either individually or collectively, would carry with it one vote?—There is no vote for a holding of less than £500.

250. *Mr. Newbold*: Is any proxy voting allowed?—Proxy voting is not allowed.

251. Quite definitely?—Only to the extent that in a joint account the holders may authorise one of their number to vote.

252. *Mr. Tulloch*: Have you power to refuse to register a transfer to a holder of whom you do not approve?—No.

253. You are bound to register?—We are bound to.

254. *Chairman*: We are very much obliged to you for that information.—That answers that question. Then I was asked a question which arose in connection with the discussion as to what might influence the Bank, in the case of the need for an increase in the fiduciary issue; whether they might be influenced by the fact that such an increase would reduce profits. In connection with that discussion I was asked whether it might not be preferable that instead of the Government receiving the profits of the Issue Department they should receive some proportion of the total net profits of the Bank, leaving the Bank to receive all profits of issue and banking and then to pay this proportion to the Government. I have given a good deal of consideration to that point, and I am bound to say that my conclusion is that such an arrangement would be undesirable for the reasons which I will state. For myself I am satisfied that bearing in mind the principles which guide the Bank at the present time—whilst I am not going to say that such a question as was put to me last time as to whether the loss of, say, a million of profits is a matter immaterial to the Bank, which, of course, it is not—the question of profits, as I have said before, never influences us. I endeavoured to explain then why, in the case of an increase of the fiduciary issue there would be no need for the Bank to trouble itself about profits. I was not satisfied after I had left the meeting whether I had really made my meaning clear. What I said was that the need for an increase in the fiduciary issue could only arise owing to the fact that there had been such a heavy demand upon the Bank reserve that the Bank would, in order to keep the market supplied with funds, have been obliged to create other earning assets—to buy securities—or even if the Bank took no action, that the reduction in their reserve would have entailed such a reduction in the bankers' balances that the bankers would have been forced to call in call money, and thus to drive the market to the Bank to borrow and compel the Bank to create additional assets in the form of advances to the market. So that when that need arose the Bank would already have acquired a corresponding *additional* amount of earning assets, and would thereby have been put in possession of the assets to transfer to the Issue Department, and they would not in fact be losing profits.

255. *Mr. Keynes*: In any given circumstances, at any given level of deposits of the Bank of England, an increase in the reserve of the Banking Department diminishes the profits of the Bank?—That is true, but the question we were considering was the reverse question, should we refuse or should we hesitate to increase the fiduciary issue because we might lose profits. I say no, not for one moment.

256. *Mr. McKenna*: For the reason that you would, before that moment arrived, have been making exceptionally large profits?—Exactly. We should be foregoing profits which we might otherwise have made. I hope I have made that clear now, because I was not satisfied after I left last time whether I had made that point clear.

257. *Mr. Keynes*: You accept the point that at this moment if the fiduciary issue were £20,000,000 more than it is the Bank of England would, taking the value of money to be 5 per cent., lose £1,000,000 net profits?—Well, if the fiduciary issue were £20,000,000 larger, we should undoubtedly do so, assuming all other things to remain the same. Certainly. But the reason that convinces me that there are dangers in an arrangement under which the Government would participate in the total profits is this. Is it inconceivable that some future impecunious Chancellor of the Exchequer, let us say, badly in need of funds, might not seek to exercise some sort of pressure on the Bank to make the Bank increase its profits in order that the Government might get an increased benefit and share of those profits? Even if he did not do that, is it not possible that he might one day say, "We are increasing taxation all round, we will take more of the Bank's profits," and thereby compel the Bank, perhaps, to embark on profit-earning activities for the sake of keeping their profits level. I do not believe myself that you could have such an arrangement under which the Government participate in the total profits without sooner or later running the risk of the Government intervening to try and control the profit-earning activities of the Institution. That is my feeling.

258. *Professor Gregory*: Might I ask you one question which does not arise out of what you have been saying, but out of a remark which I have heard elsewhere? Has the Bank taken legal opinion on the particular point whether they could not have a limit for their fiduciary circulation without actually issuing up to that limit?—No.

259. Supposing you took power to issue up to £280,000,000, but you actually issued only £260,000,000?—I think not. Under the Act the fiduciary issue is the fiduciary issue for the time being authorised, whether by Parliament or by an additional minute of the Treasury, and the Act says that we must put into the Issue Department securities of a value equivalent to the total of the notes representing the fiduciary issue.

260. In your opinion you are not allowed to have a margin of the fiduciary issue unissued?—No.

261. *Mr. Keynes*: I see the great force of your argument about the Bank of England having autonomy in regard to its profits. I also agree very much with what you said previously, that it is very important that the Bank of England should have enough profit not to be worried on that score. Do you think it would be easier to maintain the existing system, from the public point of view, if the dividend to the existing shareholders were fixed for all time at a certain figure so that there would be no question of the profits earned by what is really a public institution going into private pockets?—Personally, I should prefer to allow that matter to stand until the Bank has given any evidence that they are distributing unduly large amounts among their shareholders. Unless the Bank gives evidence that the Institution is being used for the distribution of unjustifiable profits amongst its shareholders I cannot see that any action is necessary. Of course, I have heard it said that the Bank has already increased its dividend. True! But people are apt to forget that though we increased our dividend we used in the old days to pay our dividend free of deduction of tax, and we took the opportunity when we increased our dividend to throw the tax on to the stockholders, so that, although on paper the rate per cent. may look bigger than it was, in fact the stockholder has had to pay a heavy income tax on his dividend. I think myself that unless we show signs of distributing excessive profits the position is better left as it is.

262. *Mr. Brand*: Do you know what other Central Banks do—the Reichsbank, for example—as regards the Government sharing in profits?—I cannot tell you exactly what the Government share is; of course, it varies for each Central Bank.

263. There is not a fixed dividend in the case of other Central Banks?—No. There are cases in which there is a fixed minimum dividend of a certain amount, first payable to the shareholders, and then any profits over and above the fixed dividend are distributed in certain ways.

264. *Mr. McKenna*: There are occasions, are there not, when the Bank of England cannot help making very high profits. Take, for instance, the case of the War. It was unavoidable during the War that the Bank should make far larger profits than it ever made in its history, and I am right in saying that you solved the difficulty then by handing the surplus over as excess profits?—That is perfectly true; we did make large profits.

265. And you handed over all the excess?—At the end of the War and I may say that it was an absolutely voluntary act on the part of the Bank; we delivered to the Government the whole of our excess profits.

266. I take it that, should circumstances arise again—they might arise in times of peace—in which the Bank might make exceptional profits, the Court would not regard it as unreasonable that the same procedure should be adopted?—Well, I will put it this way. I think you may take it that that indicates the attitude of the Court in these matters. There is more than one way in which the Bank can temper the wind to the shorn lamb, if we may call the Government the shorn lamb, but I think you may take that as a fair indication of the attitude of the Bank in this matter.

267. *Mr. Keynes*: If the point of your evidence is that it would be very unlikely that the Bank would use its position to put money into the pockets of the shareholders, is it not foregoing a real advantage in regard to public opinion, to keep up the formalities of the former system when the reality no longer exists?—The former system?

268. The former system by which the dividend fluctuated in accordance with the profit-earning capacity of the Bank. That was so?—That was so, undoubtedly. That was a long time ago. The Bank having existed for nearly 250 years has had time to build up a strong position, but I for one should never fear that any inquiry would reveal that the Bank had not shown an absolute public spirit regarding the manner in which it may use the strength of its position for the public benefit.

269. *Chairman*: I think we understand the position. There is no suggestion that there has been any abuse; it is merely a suggestion that the public might prefer that there was not even a possibility of abuse. Your suggestion, on the other hand, is that the public need have no apprehension in the matter?—They should not have at the present time.

270. And your point is that it is a question whether there should be any interference until the need has been demonstrated?—Until the need arises.

271. That a change would not confer any practical benefit on the public because the public have not suffered?—I should be reluctant to see any step which in any way seemed to affect the fact that the Bank is a private Corporation.

272. We appreciate that?—If it abuses its position as a private Corporation, then by all means let the Government step in.

273. I think we understand entirely?—But until it abuses it, I would much rather it were left as a purely private Corporation.

274. Were there any other topics you wished to pick up from the last occasion?—The other one, Mr. Chairman, was in connection with the item in the Bank Return with which we were dealing. Perhaps I might now go straight on.

275. Mr. Keynes asked some questions as to the proportion of the constituents of Other Deposits, Other Accounts?—I think I told the Committee the nature of the accounts which were included. I am not sure whether I included quite all of them because one or two have occurred to me since, and I want, therefore, just for a moment to run over them again, if I may. They include, as I said, all bankers' accounts that are not in the item " Bankers " in the Return. They include foreign Central Banks, they include people like the merchant banking houses and various financial houses, discount companies, insurance and trust companies, Indian and Colonial Governments. There is one item which sometimes bulks fairly largely, which I did not mention. It includes dividend accounts of all non-Government Stocks, of which the Bank manages a very considerable number, that is to say, the monies in our hands to pay the dividends on Colonial Stocks, Corporation Stocks and so on, Government Guaranteed Stocks—anything that is not a direct charge on the Exchequer.

276. *Mr. Keynes*: Local Loans?—Local loans; and it includes also the accounts of some public bodies, which are not Government; such accounts, for example, as the International Financial Commission, Greece, who at times have quite a considerable balance, the Caisse de la Dette, Egypt, who at times have quite considerable sums of money, the Agent-General for Reparations Payments, who at times has considerable sums. They vary, they fluctuate a good deal. And, of course, it includes all the Bank's own internal accounts. As to the details, that is to say, the exact proportion in which they are divided, I prefer, with the permission of the Committee, not to state the details. I honestly do not believe it is necessary; they relate to matters of our private clients and I should prefer not to state them.

277. *Lord Bradbury*: You said that you included in " Other Accounts " money to pay dividends on Local Loans. You do not mean Local Loans Stock?—No, I think the Local Loans Stock Dividend Account is a Public Account.

278. *Mr. McKenna*: You say that the total of these accounts fluctuates widely?—Individually. When I say widely, of course that is a matter of degree. The total of them does not fluctuate very widely.

279. *Chairman*: *Inter se*, they do I suppose?—*Inter se*, there are considerable variations from time to time.

280. *Mr. McKenna*: To what extent might the total fluctuate—between what sort of limits? You see why I ask the question?—Yes, quite! I should doubt whether it would fluctuate more than say, perhaps £4 millions or £5 millions. You must not pin me down to that, because I am not quite sure.

281. *Chairman*: We can easily get that?—You can get it by comparing the published returns.

282. *Mr. McKenna*: I can get recent figures, but I cannot get figures over a long period. Would £4 or £5 millions be reasonable?—A comparison of the published returns would show you. I expect you have got them.

283. *Chairman*: Of course, this division of the Bankers' and Other Accounts in Other Deposits dates only, I think, from 1928?—From November of last year, on the amalgamation of the currency notes with the bank notes. (*Chairman*): I notice that from November 1928, when the separation began, the total of " Other Accounts " seems to be remarkably constant. The range seems to be between £36 millions and £38 millions. Of course it is a very short period that I am looking at here.

284. *Mr. Brand*: I do not know whether this question was asked last time: What proportion of the total of Other Accounts represents balances of foreign Central Banks?—No. If the Committee really feel that it is important—I do not like giving part of the figures; they might be misleading unless I gave the whole details.

285. *Mr. Newbold*: Do the accounts of foreign Central Banks vary very much?—No, they are very steady. I will explain to you the reason why they are steady. As I think I have told the Committee before, we do not work for foreign Central Banks for commissions. We always tell them we do not look upon them as clients from whom we wish to earn profits, but we wish to be repaid for our trouble and work, whatever we do for them. We simply ask them, therefore, to keep adequate free balances to compensate us for what we do, and the total of their

balances is the aggregate of those free balances which they maintain with us. They may keep other free balances for their own account, and they may therefore vary to a certain extent, but by and large they are a fairly constant figure.

286. *Mr. Brand*: And all the rest of their money is in the form of bills, I suppose—more or less?—Bills, yes; principally bills. They do sometimes buy British Government securities, short securities.

287. *Mr. Keynes*: Last week I made allusion to the foreign bank deposits of the Federal Reserve Banks. Is Sir Ernest aware that the Federal Reserve Banks publish separately every week their foreign bank deposits, any sums which foreign banks owe them, and also as a separate heading the amount of bills purchased for foreign correspondents? The latest weekly record that I have for the last is 455,000,000 dollars.—Yes, I know they do. They publish the bills, they do not publish the short Government securities. On that very question I have had the opportunity of a talk to an American who is pretty well-informed on these matters. I asked him whether he considered that the figure which they publish is really a useful figure, and he told me that he regarded it as misleading and he doubted whether it served any really useful purpose.

288. Would it not be a useful figure?—If it were all the foreign balances it would be a useful figure, I dare say.

289. Would the publication of all the foreign balances not be useful to the Central Bank?—Take our own case: The foreign moneys placed with us by Central Banks, as I said last week, are—I will not say a very small proportion, but they are a small proportion of the total foreign balances held in the London market if we are to believe the estimates we see of the holding of foreign countries in the London market.

290. Might it not equally well be argued that your deposits were a very small proportion of the total deposits of the country?—No, because they can be aggregated with those of other banks. The rest of the deposits are all published, but not the foreign holdings, they are not published.

291. Obviously it is a very important item in judging the situation whether the foreign bills which the Bank of England hold for foreign correspondents are increasing or decreasing. It is a very important barometer.—It may be. I am doubtful.

292. You were saying that it was the susceptibilities of foreign banks that made you hesitate. Now, the publication of bills as distinct from Government Securities by the United States must be as offensive to their susceptibilities as similar statistics here would be?—If we were to publish the figures of foreign balances, of course, the foreigner would know that it was only the foreign balances that were with us, but I think the figure we published would be exceedingly misleading to the British public. It would give no indication whatever as to what is the total.

293. Would not moves up and down give any indication?—None.

294. I was not merely suggesting that the Bank of England should be required in isolation to give these figures, but that all banks should be required to publish them. Would not that make this information of very great importance even to the Bank of England itself?—Well, I think if we possessed the information it would be useful undoubtedly as a guide to us. I think it would. But that is a different question. The publication of ours by itself, I am convinced, would be simply misleading and would be of no use whatever.

295. *Chairman*: The question has two aspects, first, the value of the information and, secondly, the question of the expediency of publishing it. The information may be of less value because it is not complete, but would you get yourselves in trouble with other countries if you published, or if all the banks published, these particulars?—I do not see why we should. If it were an aggregate figure, I do not see why that should create trouble.

296. Without discriminating between individuals?—Absolutely. Now, if I may come back to the Bank Return, the Banking Department, and deal with the assets, the right-hand side: "Government Securities" includes all securities of the Government.

297. *Mr. Frater Taylor*: Any foreign Government securities?—Only British Government, that is to say, all direct securities of the British Government. It does not include, for example, Trades Facilities Stocks if we hold any, or anything that has merely a guarantee of the British Treasury. They are all direct obligations.

298. *Mr. Keynes*: It includes Treasury Bills and Ways and Means advances?—It includes Treasury Bills and Ways and Means advances when there are any, long-dated Government stocks or short-dated Government stocks. "Discounts and Advances," of course, speaks for itself, but I ought to make this point clear, that "Government Securities" includes Treasury Bills, that is, Treasury Bills bought by the Bank where the Bank initiates a transaction. If a Treasury Bill is brought in by anybody for discount at the Bank it is treated as a discount and goes into "Discounts and Advances."

299. "Discounts and Advances" are entirely a thing which is done on the initiative of the client?—On the initiative of the client, absolutely.

300. *Mr. McKenna*: Do you never buy commercial bills, bank bills?—Yes, we do occasionally. They are not in "Discounts and Advances."

301. They appear in "Other Securities"?—I was coming to that.

302. *Mr. Keynes*: The distinction between the two is not really the category of the document, but the way it came into the Bank?—The way it came into the Bank, as to whether it was an action by the Bank or an action by the Bank's client. "Other Securities" includes, as I say, any Government guaranteed stocks, any Indian, Colonial or foreign securities, miscellaneous securities, and it may include bills which the Bank has gone out and purchased.

303. *Mr. Frater Taylor*: Would it include ordinary shares, for instance, of a commercial company or anything of that kind?—No. The Bank does not buy ordinary shares, not as investments, ever.

304. You passed over the word "Advances." That represents advances to whom?—To clients, any client who may come in and deposit security. I may say that we do not make any advance without security, a good margin of security, of the highest class quoted on the London Stock Exchange. We make no advance on a security where there is a liability and, of course, we make no advance against our own Bank stock.

305. *Mr. Brand*: Would all advances to the bill market come in there?—They would all come in there, and the object with which we separated those two items, which we did in November last, was that the public, and especially the financial public, might be able to gauge to what extent the market were in the Bank and see to what extent the market were indebted to the Bank; to gauge the variation in their indebtedness.

306. *Mr. Keynes*: Are all the items in that total effected at Bank Rate?—In "Discounts and Advances"?

307. Yes.—Are you talking of discounts or advances?

308. Either?—Discounts for the market, yes. If a private customer did bring in say a Treasury Bill, as he might do, and ask us to discount it, and he were a valued private customer, we might allow him what we considered was the fair market rate. But that business is unimportant.

309. *Professor Gregory*: Advances are at a half per cent. over the Bank Rate, as a rule, are they not?—To the market. To customers the rate varies

according to the account and character of the securities; as a rule, little as to the character of the securities, because we always insist on the best, with ample margin; it is determined more by the value of the account.

310. "Discounts and Advances" under the head of "Other Securities" includes any advances that you might make to your private customers, as well as to the market?—Absolutely every advance, except an advance on Ways and Means to the British Government.

311. *Mr. Keynes*: Would it not show more accurately how the market stood if you had two items, one the discounts and loans to the market at or above Bank Rate, and the other the business with your clients of other categories?—Generally speaking, we think that the variation in the combined total is quite a close enough indication. It is a reliable indication. It might happen, though it is rare, that some public body or some Government for whom we could not at the moment issue Stock might say, "Will you just carry us on for say a month, until we can issue Stock"; we might make them an advance, but for all practical purposes you can ignore the private advance and discount business of the Bank; apart from the business which the Bank does with the market, the advance and discount business is small and varies little, and the variations do show——

312. The variations rather than the actual amount?—The variations rather than the actual amount, because there is always some business done for other people though, as I say, it is small.

313. *Sir Thomas Allen*: When you speak of an advance to a client, does that mean that any type of would-be client is prohibited, under certain circumstances, from getting an advance, or are you applying it strictly to certain individuals or shareholders?—Anybody who is a banking client of the Bank. He must have a banking account and a banking account that is a genuine account and of such a character as to entitle him to get accommodation from the Bank.

314. That is to say, that, if I had not an account with you, I could not come to your Bank with proper security and get an advance?—No, we should say, "Go to your own bank."

315. *Mr. Frater Taylor*: Do "Securities" include foreign securities?—They may, yes.

316. Are any of those "Other Security" items earmarked against particular deposits?—No.

317. *Professor Gregory*: The answer which you have just given to Sir Thomas Allen, that you would normally not make an advance to somebody who had not got a definite bank account at the Bank, would not apply, I take it, in a national emergency?—Well, during the War, for example, if we considered it to the public advantage to assist, for instance, when the Government were making an issue of stock and so on, if we felt we could do something to facilitate matters, I do not say that we drew a hard and fast line, but I cannot call to mind at the moment any case in which we have made an advance to anybody who was not a banking customer.

318. May I put a case—a purely hypothetical one? In the crises, for example, of 1857 and 1866, it was rather the boast of the Bank, was it not, that it did assist the City to an almost unlimited extent? Would you, in a case of that sort, really seriously inquire if a merchant who wanted accommodation had been in the past a regular customer, or not, before you extended credit? Is the rule as inelastic as that?—No, I would not say it is absolutely inelastic, but, in pursuance of our policy not to compete with other banks for private bank business, it is our practice to say, "Why not go to your own bank?" If the other bank were unable to do it, or if the other bank said, "We should be obliged if you would help our client," and so on, I do not say we should not do it, we probably should, if it were in the national interest, but, ordinarily speaking, we would not deal with anybody not a client, nor would we open an account for the avowed purpose of making an advance. If a customer came to us, for example, and said, "We want to open an account with you, will you make us an advance?" our answer would probably be, first of all, "Why do you come to us?" They do, from time to time. Even in the presence of two bankers, I am bound to say the answer we receive is very often, "Well, my bank is so unreasonable," Our answer always is, "You will find us very much stiffer than any other banker, and you had much better stay where you are." I have done it myself on occasions. That is the practice we follow.

319. Of course, you realise I am not asking about the practice of the Bank in normal times, but in times of national emergency?—I agree, in times of national danger or crisis, I am not prepared to say that there is anything that the Bank would not do if it were really in the national interest and consistent with its primary duties to the community.

320. *Mr. Frater Taylor*: Is that figure of £29,952,000 a net figure, after providing reserves?—Do you mean by that, is the figure of securities the present market value, or the value at which they stand in the books, and is the latter less than the market value?

321. No. Is that figure the realisable value? If it is necessary to provide a reserve, is the reserve deducted before that figure on the assets side is arrived at?—If we consider it wise, and I think you may take it we do, to keep our securities below market value, then that is the figure at which they stand in our books.

322. Which brings me right to the question of "Rest" on the other side. Is that, in effect, the Bank's reserve?—It is part of it.

323. *Mr. McKenna*: Might we not presume that, like many other banks, your securities stand at a written down figure?—Well, I think if sold they would realise more than the figures standing in the Bank's books.

324. *Lord Bradbury*: The arrangement by which the Bank undertook to make advances to holders of 3½ per cent. War Loan was only for a period?—That was only for a period.

325. But, if any advances were made, they would come under this item, even though the holders were not clients of the Bank?—Certainly.

326. *Chairman*: Our next item is "Notes"?—The Notes I have already dealt with, in dealing with the Issue Department, and as regards the gold and silver coin, I have already explained that that is practically entirely silver.

327. I want, particularly, to have the benefit to-night of your account of the relations of the Bank with the discount market. I think that is a matter where you can help us very much?—Would you like me to take that next? Because there was one point which I thought might be of interest to those members of the Committee who are less familiar with the Bank Return. It is a question that I know bulks rather largely in the minds of some. It has already been referred to. Perhaps I might just explain for their benefit, for a moment, what exactly happens on certain occasions in the figures of this Return. It is a question that I think Mr. Bevin was particularly interested in. Imagine that the Bank are creating £5,000,000 of credit; how is it done, what is the effect on the Return? Of course the only way in which the Bank itself can create credit is by the purchase of securities which would fall under the head of either "Government Securities" or "Securities" in "Other Securities," or by the making of an advance or advances, or by the discounting of bills. The creation of that £5,000,000 of credit would, therefore, increase one or other of the first two figures on the right-hand side of the Banking Department, and the credit created would automatically increase the total of the bankers' balances on the other side of the Return. It is often said that one of the causes

of our troubles is the failure of the Bank of England to create sufficient credit. Now, I want the Committee just to bear in mind the sort of thing that we have to consider when it is a question of creating credit. What happens to that credit we have created? I say it goes on to the bankers' balances. But, of course, nobody wants to take £5,000,000 for the purpose of keeping it idle. It is true that the bankers may themselves, if they like, use that £5,000,000 as an additional basis for the creation of still further credit, by increasing their advances, the £5,000,000 enabling them to maintain their proportion of cash. But either that £5,000,000, or the credit which is created against it, will be used. It may go to this bank, that bank, or the other bank, but, in effect, what happens is this, that, no sooner is that £5,000,000 of credit created than, as a rule, some bank, or, it may be, other firms, private firms, sometimes financial houses or other persons, find themselves in possession of additional money. What do they do? We may feel the reaction of it at once in the fact that somebody wants to lend more money on call in the market. There may immediately be—I do not say it always happens; I am only saying what may happen—this additional money may be offered in the call market, with the result that the discount market may take the money on call. If so, they want bills, they want to invest their money; there will be a keener demand for the bills available: rates will immediately begin to sag, and it is not impossible that the gradual sagging of the rate of discount may have an adverse effect on rates of exchange, and what may happen is that the very creation of that credit will bring about a set of circumstances through exchange depression in sterling as measured in foreign currencies, that will lead to a loss of gold. It may even result, in the long run, in the loss of the whole of the £5,000,000 in gold. What then results? So far as our figures are concerned, we are restored to where we were, but we have exchanged £5,000,000 of Notes for £5,000,000 of securities; our position is weaker, and we have done no good.

Therefore, when we are urged to create credit—whilst, of course, we are anxious to do anything that is possible as likely to be of benefit, say, to industry—we have always got to bear in mind the position of the exchanges and their tendency, whether it is weak, whether the additional creation of credit is likely perhaps by a lowering of the rates in our own market to weaken the exchanges to a point at which, having created £5,000,000 of credit, we may lose it or a good deal of it in gold at once without actually having done any good. As I said at the commencement, our primary duty is the maintenance of the stability of our currency unit and, therefore, when we are asked to create credit we cannot blindly create credit without bearing in mind what its effect is likely to be on our other and primary function. I merely say that because I want those members of the Committee who are perhaps less familiar with this subject to realise the sort of consideration which we have to bear in mind when it comes to a question of creating additional credit. This is rather trespassing, of course, on the domain of higher questions of policy which it has been agreed should be reserved for discussion later. I do not want to get into an abstruse discussion on the subject because there are minds here much better qualified to deal with it than my own; and I would much rather that it were left for discussion later, but I did just want to mention the point.

328. *Mr. McKenna*: Before you leave this subject —I do not want to enter into any controversy upon the matter; I want to ask one question—when you speak of your duty to maintain the integrity of the currency I understand you to mean to prevent depreciation of the currency?—Yes.

329. Do you pay equal attention to avoiding an appreciation of the currency?—Certainly.

330. How do you do that?—I am speaking, of course, of our ordinary normal procedure. Our endeavour is to watch the ordinary indices of price levels and exchanges.

331. Have you made efforts during the last four or five years to prevent the fall in prices which has taken place?—Well, I do not know that I really should care to pursue this question at the present moment. It is, of course, a very difficult question, and a question which honestly I do not claim to be particularly qualified to discuss.

332. *Mr. Lubbock*: Is Mr. McKenna going back to the whole question of the restoration of the gold standard?—*Mr. McKenna*: No, I am only dealing with conditions since the restoration of the gold standard. *Mr. Lubbock*: Resulting from it?—*Mr. McKenna*: Well, I should not agree to that, The actual fall in prices has been roughly 10 per cent. in the last five years. It is the appreciation of the currency by 10 per cent. *Chairman*: I think what the Witness has done has been merely to sound a note of warning to some of us to remember that an increase of credit created by the Bank of England may have repercussions, if you follow it through to the end, which might render it less advantageous than it otherwise would be. *Witness*: Undoubtedly.

333. You must follow it through to the end, and if we follow it through to the end we may find that the results which we anticipated at first are possibly in the end defeated?—I simply want the Committee to bear in mind that there are circumstances, or may be circumstances, in which——

334. The last state may be worse than the first?—The last state may be worse than the first. *Chairman*: We will bear that in mind as a warning. *Mr. McKenna*: I wish to put in a proviso that this is the crux of the controversy.

Chairman: Quite. Sir Ernest is merely sounding his own note of warning, that in his opinion those other considerations should be taken in view, and in his opinion those other considerations may in some circumstances outweigh the advantages.

335. *Sir Thomas Allen*: I should like to mention in this connection that when Sir Ernest speaks of the creation of credit which might involve a removal of gold from the country, some of us are thinking about the creation of credit in respect to our own national industries that would not involve the removal of gold to some other country. I merely want to mention that, that the thought in some of our minds is quite distinct from the expression given by the Witness to what he understood was in the minds of other members.—I think, Mr. Chairman, that that aspect of the question will arise more naturally when I come to deal with the Bank's relations with, let us say, Rationalisation, on which I shall have something to say which I hope may be, at any rate, comforting to some of those present.

336. *Professor Gregory*: I think that in pre-War days, if I am not mistaken, the Bank of England in deciding whether or not to raise or lower Bank Rate decided primarily on the relation between the reserve in the Banking Department and the outstanding liabilities in the Banking Department. That is to say, the ratio?—You are talking of pre-War days?

337. In pre-War days.—Yes, I should say, broadly speaking, that is correct.

338. Would I be correct in assuming, without questioning the expediency of the Bank of England's policy in any way, that the first consideration so far as it bears on the figures in the Bank Return is no longer the ratio, but the amount of gold coin and bullion in the Issue Department?—No, I would not say that. I would say it was the ratio in the Banking Department having regard to the amount of gold which we hold in the Issue Department and to the state and tendency of the exchanges. All three have got to be taken into account.

339. *Mr. Keynes*: The "Government Securities" and the "Other Securities" fluctuate to a fairly great extent, they fluctuate a little every week.

Those represent, I understand, what are called the open market operations of the Bank. What are the governing considerations in the mind of the Bank in regard to their daily operation in respect of these securities?—It is true that the fluctuations in Government securities are sometimes large, but the reason for them can generally be seen by a glance at the reserve and at the figures of the other deposits. There are various things that may lead to a considerable increase. Take for example the payment of a War Loan dividend. The Bank may be asked by the Government for money for payment of War Loan dividends. That may obviously create a considerable movement in Government securities. But if you mean, is there any consideration that may decide us to make an increase in the Government or in the "Other," as to which it is to be, it is not a question that arises in our mind.

340. *Mr. Lubbock*: You are governed really by the amount of money in the market?—When Government balances are running very high, other deposits will be short; when Government balances are running low other deposits will be high—and if it is not necessary to keep market rates very firm we may in the first circumstance buy bills in order that the market may have enough money with which to carry on until the Government have disbursed their money.

341. *Mr. Keynes*: Does not the Bank deliberately govern the amount of its open market operations, so as to maintain the total of the bankers' deposits round about some pre-determined figure?—No; I could not say that; because we find by experience that ease in the market may exist at one time with the bankers' balances at a much lower figure than at another time when money seems scarce.

342. Would it be correct to say that you are governed by whether you think the open market rate of discount wants stiffening up or can be allowed to relax?—I am afraid I do not quite follow what is exactly your question.

343. Each day you have to decide what the volume of your open market operations shall be?—Yes.

344. That will affect the aggregate of the bankers' deposits in the Bank of England?—Yes.

345. I was asking whether you were mainly influenced in making your decision by the desire to keep the bankers' deposits at some figure that you fix in your mind as desirable, or whether you are thinking of the open market rate of discount?—It depends entirely upon whether we think the circumstances require that we should give our principal attention to the rate of discount or if we think that the circumstances are such that we need not worry about the market rate of discount; in the latter case our policy would be to keep the funds of the market at a figure which is not going to cause them disturbance.

346. *Professor Gregory*: And how would you arrive at what you considered to be a suitable figure of bankers' deposits?—We know more or less by experience, although it is true that the figure varies from time to time, what amount of bankers' balances should mean ease and what a shortage.

347. You are thinking mainly of the effect of fluctuations in that item on the condition of the money market in the next week or two?—In conjunction with the need for watching the rate of discount in relation to the trend of foreign exchanges and our holding of gold, either the need to attract it or the absence of any need to attract it at the moment.

348. You would not take into account the state of employment or the price level?—We always have before us the price level, certainly; but if we are well supplied with reserve, and having regard, let us say, to the season of the year, to the likelihood of the exchanges, owing to the season of the year, turning in our favour or against us, if we are well supplied with reserve we should not enter into market operations simply to keep the bankers' balances down to some particular figure. We should not mind if they went £10,000,000 up or £20,000,000 up, so long as it was not going to threaten us, as I said earlier this afternoon, with a possible reaction which might bring us into a position which would be painful to industry. If industry can get benefit without the threat of our having to submit them to a very painful operation at a later date, there will always be the means for them to get credit as far as we are concerned.

349. Are you constantly trying the experiment of easing them out, and then seeing what are the consequences of that? You cannot predict the consequences, can you?—We cannot predict them; we can only judge to the best of our opinion, according to our experience of what happens at certain times of the year, and having regard to such operations as we happen to know have got to take place, say, between this country and other countries.

350. That is to say—again it is a question of fact—you have those wider varying considerations in mind, but you judge from your experience and do not take action directly upon those considerations? You take the money market indices into account, although you are aware that behind those money market factors you have the industrial and unemployment situation?—I would say that we do not overlook the question of unemployment and the needs of industry.

351. *Mr. Lubbock*: Is it your experience that any increase of credit carried beyond a certain point always has the same result; it results almost immediately in the weakening of discount rates?—Yes. Always, in point of fact, if we go beyond a certain point.

352. Therefore, any additional credit that the Bank of England creates hardly has time to reach industry before it is taken away in the form of gold?—Undoubtedly. If we are in a weak position where we cannot afford to lose much, of course the risk is greater, but directly we create credit it almost immediately finds its way outside to the call loan market, with the effect that it depresses discount rates.

353. *Mr. Brand*: When the Bank this summer lost, say, £20,000,000 of gold to France and other countries, did the Bank take measures to counteract the effect of that loss on the market, so as to keep the same amount of money in the market?—You will find if you look at a succession of Bank Returns that the amount of gold that we have lost has been almost entirely replaced by an increase in the Bank's securities. After all, you must remember this, that it takes very little, really, to swing over from a shortage of cash in the market to a tightness of cash. One man in the market with £250,000 to lend when everybody has got what they want can go round, as we know has been done, and try to lend it here and there all round the market, and nobody will take it, and we are then told, "Money is unlendable." In fact it is the same £250,000 which has been offered all round. But another day you may have one man who wants £100,000 and who goes to one lender after another and says, "Please can you give me £100,000?" And in every case receives the same reply, "Impossible." The story soon gets round, and people say, "Money seems tight to-day."

354. *Mr. Keynes*: If we make a foreign loan of £5,000,000 that, presumably, will turn the balance of trade against us and in some proportion that will react, will it, on the amount of bankers' deposits which the Bank of England can safely create?—If the loan is made and the proceeds are drawn away we shall see its effect in the movements of the exchanges.

355. So that if the attractiveness of foreign lending increases, that means that you must take steps to reduce the market's balances at the Bank of England?—If the attractiveness of this market to the foreign borrower is increased, is that what you mean?

356. Yes, is increased.—It may, if our position is already, in our judgment, weak enough, having regard to impending circumstances.

357. So that we are very much at the mercy of fluctuations in foreign centres with which we may have very little to do directly?—Undoubtedly, in certain circumstances.

358. You agree that the dear money which prevailed in New York until fairly recently would have the effect of diminishing the amount of bankers' deposits which you could allow safely to exist in London?—Undoubtedly.

359. Your evidence rather suggests that the total effect of all foreign influence of this kind remains the determining influence on the amount of credit that can be created?—Yes, and I think it must be so if we wish to be a real international financial market.

360. You regard us as being at the mercy of all these foreign demands?—At their mercy, to a considerable extent.

361. *Mr. Brand*: Other centres also being to some extent at the mercy of other nations?—Yes.

362. *Mr. Keynes*: Those with the largest quantity of free gold relatively less at the mercy, and those with the smallest quantity of gold more at the mercy?—If they will use it.

363. *Mr. Newbold*: Why do they not use it?—Ask them! That is a conundrum I cannot answer.

364. *Mr. Keynes*: Perhaps this is a question of policy which should be left until later. Has the Bank of England considered whether there are any changes that could be made that would put us less at the mercy of fluctuations abroad?—I do not think I should like to answer that question now. I wanted to speak quite shortly about our relations to the discount market which, after all, is the pivot of the machine here. I do not know that I need do it at any length. The discount market, of course, really exists as a sort of buffer between the Bank of England and the commercial banks. It is obviously necessary for the commercial banks in addition to whatever they may decide to hold in the form of cash, whether cash in their own tills or balances at the Bank of England, to have a second very liquid line of defence to meet any sudden demands that may come upon them, and that line of defence, of course, is their call money, which is lent from day to day. The discount market really lives by dealing, broadly speaking, in bills of exchange.

365. *Chairman*: Commercial bills?—And Treasury bills. To a limited extent it may carry a few short bonds, because Government bonds when they become short are practically the same as bills of exchange, but, broadly speaking, it deals in bills, either commercial bills or Treasury bills. The funds with which the discount market operates are derived practically from two sources. They have their own funds to start with, their own capital on which they start to do business, and then they borrow from the commercial banks on day-to-day loans. They may borrow other moneys, but a large part of the money which they borrow is these day-to-day loans from the banks, and they are liable every day to have this call money called from them by the lender. Of course, it is common knowledge that the banks publish every month figures which are the average of their figures on, let us say, four Tuesdays in the month, or four Wednesdays in the month, or four Thursdays in the month, whatever the day is on which they decide to take their averages. Banker "X" may go to a discount broker and may call the money, or part of the money, which he has lent him. The broker who is carrying bills of exchange on that money necessarily has to replace the money, and so he goes round to other banking friends, and possibly Banker "Y," who has no particular need of funds on that day, because either he is not making up or he has no big demands on him, or he may have received funds, will lend to the broker. Thus the discount market brokers are working with their own capital as a basis to which they will add very considerable sums borrowed from the banks, but they knew that, supposing calls should come on the banks simultaneously, or the banks should make up on the same day—to take the extreme case, viz., the last day of the year when every bank is making up its Balance Sheet and desires, quite legitimately, to show a good cash holding and that it is keeping its funds liquid—the discount market must be able to feel assured that they can replace the money from somewhere. Well, there is only one place to which they can go then to borrow money in any quantity, and that is the Bank of England. Therefore, they must be sure that the type of bills in which they deal are bills which the Bank of England will accept from them when the need arises. So far as their own funds are concerned, funds which cannot be called from them, of course, they can hold bills of a different character if they choose; that is their own concern entirely; but, so far as their relations with the Bank of England are concerned, they can only come to the Bank and demand—I say "demand" advisedly because it is an understood thing that they will always get accommodation within certain limits and on certain terms—they can only demand accommodation from the Bank against a particular class of security or bill. Of course, it may mean that at certain periods, if the market have apprehensions that the Bank Rate is going to rise, if they see ahead a possible lengthy period of high rates, they may say to themselves: "Well, we had better clear out some of our bills before the rates go up; we will take them to the Bank at once and discount them; it is better to go there and get rid of them, release our funds and be able, when the rate has gone up, to replenish our portfolio at the higher rate." There the Bank has to protect itself by limiting the currency of the bills which it will take. It may say: "Yes. Whilst we will give the discount market the accommodation it requires, we will only advance to it ordinarily for a minimum period of a week, or we will discount bills, it may be, having two or three weeks to run."

Of course, at the Bank our regulations as regards the bills we accept, though they are not governed by any statutes or anything of that kind, are, in fact, quite definite, and have been taken more or less as a model by most foreign Central Banks. They are, that the bills shall bear at least two good British names, one of whom must be the acceptor. The discount market know that. Of course, the bills may represent, let us say, a sale of cotton by the United States to Great Britain; they may represent movement of produce from the East to Great Britain; they may also represent movement of produce between two foreign countries which is financed by credit obtained from a British house, and where they accept the bill, although the bill relates to a movement of goods abroad, it is a British acceptor. The market knows that it can always get its accommodation at a price. Of course, I do not mean to say that any member of the discount market can come in and get accommodation to an unlimited extent. The relations between the Bank and the discount market are exceedingly intimate. Seeing the sort of obligation that the Bank accepts towards the discount market, we claim the right to be kept fully informed regarding their position; if need be, to see their balance sheets, and the right—of course, in the strictest confidence—to the very fullest information.

366. *Chairman*: What is the size of the market?—The number?

367. Yes?—Do you know, Mr. Brand?

368. *Mr. Brand*: The number of firms—about 20. —More than 20, I should think.

369. *Mr. Lubbock*: About 20 discount accounts? —I should think it is over 20. I should think it is somewhere about 23. I could not tell you exactly. Of course, they vary from private firms of moderate size to the big discount companies, but they do provide a piece of machinery which enables the bankers, with the minimum of disturbance, to adjust their own positions to meet their daily needs, and

the discount market know all the time that they have the Bank of England on which to rely. The machinery is practically peculiar to London.

370. *Chairman*: It does not exist in any other country?—There have been attempts to copy it, but it exists nowhere else really as it exists in London. The rate paid by discount houses to banks for short money, call money, of course, has nothing to do with us at the Bank; that is a matter for the banks themselves. Whilst I do not know that they have any established rule, it is generally understood that they charge a minimum of about 1 per cent. below Bank Rate, but that is not a question upon which I can speak; that is a question for the bankers themselves.

371. That is known as call money?—That is bankers' call money. Of course, there is a lot of other money that is lent on call. What the proportions are, it is difficult to say. I have often asked people and I should estimate—I may be quite wrong; Mr. McKenna probably knows much better than I do—that the bankers' call money is probably about 50 or 60 per cent. of the call money in the market. The other call money is call money in the hands of private lenders, and if they cannot get such a rate as the bankers will expect to get—let us say, their minimum rate of 1 per cent. under Bank Rate—they will cut the rate at once and they will begin to lend money more cheaply, and that is the call money which may act as a depressing factor on discount rates. But, of course, that is a factor over which we really have no control. We have to take it into consideration, but, as I say, it is not a matter that we can control. The rate at which the discount house can generally sell its bills to the Bank is what is known as the Bank Rate, that is the Bank's minimum rate of discount to the discount market. I have already explained it is not the Bank's minimum discount rate. If a private customer, who is a valued customer, brings a Treasury Bill or even a commercial bill to the Bank and asks us to discount it, the Bank Rate is not necessarily the rate charged; we may charge what we consider is a fair rate, having regard to what is the actual rate in the market at the moment. But that business, as I said before, is of no importance; advances to the discount market are usually made for periods of a week and at a rate of one-half per cent. over the Bank Rate. I say usually. There is no rule that absolutely governs it, but that is the usual practice.

372. *Mr. Keynes*: Have you any statistics as to the volume of acceptances outstanding?—No.

373. Might the Bank of England make it a condition of regarding an acceptor as first-class that he should send them a weekly return of his acceptances?—The acceptors do keep the Bank furnished with very full information regarding their positions and we do claim the right to see their balance sheets.

374. *Professor Gregory*: You refer to the acceptors' balance sheets?—Yes.

375. *Mr. Keynes*: I am not thinking so much of their credit—whether individuals are overdoing it or not—but what the aggregate is from the point of view of the market as a whole. Would it not be useful if they let the Bank know, from week to week, the aggregate amount of acceptances outstanding?—Well, I think it might be useful, if it could be done without hurting the susceptibilities of acceptors, and so long as no fear got into the minds of drawers that acceptors were passing on confidential information regarding their business.

376. *Mr. McKenna*: Banks do publish the total of their acceptances?—Banks do, I agree, and, of course, the balance sheets of all the accepting houses show them, but they are not all public property.

377. *Mr. Brand*: You could not write and ask the Credit Lyonnais for details, for instance, could you?—No. But then we do not take the acceptances of the Credit Lyonnais. (*Mr. Brand*): Those acceptances are on the market.

378. *Mr. Keynes*: Has the Bank of England any statistics of the volume of bills which the money market brokers are carrying?—If you ask as to the bills in existence which the Bank might be asked to discount, is that what you have in mind?

379. The total amount of acceptances, excluding a certain proportion outside, which would be in the hands of the market?—Certainly.

380. Have you any statistics as to the amount in the hands of the market?—No.

381. Have you no statistics as to the amount of call money which is being used for the purchase of bills?—No.

382. Would it not be useful to have that information?—It would be interesting, and it might be useful.

383. I ask it because in the United States they pay very great attention to the figures?—We have no complete information on that point.

384. *Mr. McKenna*: Would you have any objection if the Committee were to make a recommendation that the Bank of England should get information as to the aggregate amount of acceptances?—No. I do not think I need say anything more about the discount market. I had also down "Bank's Relations with Issuing Houses," but I can deal with that almost in two words.

385. *Mr. Keynes*: One rather important question before you leave this point. It was alleged in the Press quite recently that the Bank of England put pressure on the discount market not to deal in bills except at a stated figure?—It was stated in the papers, I believe, that the Bank of England actually told the market the rate at which they should tender for Treasury bills. I know it was absolutely untrue.

386. There was no attempt on the part of the Bank of England to get the discount houses to keep to a particular market rate?—There was a suggestion at the moment that the Bank thought it desirable that the Bank Rate should be allowed to be effective, and that the discount market should not be allowed to slip away, but as to any idea that the Bank said to the market—as it was openly stated—that they were to tender for bills at a certain rate, there was absolutely no foundation whatever for that. I was present myself at the interview, and I know it was not said, or anything to indicate it.

387. It was stated by a very reputable organ of the Press as a fact?—We are said to be very reserved in our attitude towards such statements in the Press, but if you start to contradict such statements where are you going to stop?

388. *Chairman*: You said you could tell us in a couple of sentences the relations of the Bank with the Issuing Houses?—There I merely wanted to say this, that our relations with the Issuing Houses are absolutely informal—that is to say, the Issuing Houses that undertake the issuing of the higher class issues. It is the practice for them to keep us informed; it is simply a practice. They are under no compulsion to come, no obligation whatever and we have no right to demand that they shall come, but they do in practice come and tell us what their intentions are. They come to consult us obviously, partly for their own advantage and partly for ours. It helps to the orderly issue of loans. That is to say that too many loans of a particular character are not thrown on to the market at any given time, and if the British Government has an operation in view it gives us the opportunity, without disclosing the fact in any shape or form, to exercise some sort of restraining hand so that the operations of the British Government will not be prejudiced by other people coming out and blocking the way. The relations are purely informal, absolutely unofficial, but I think I can claim that they work pretty efficiently and that they are really to the advantage of the community and everybody concerned.

389. *Professor Gregory*: When you use the word "efficiently," are we to understand that the Bank has sometimes suggested that there should be a delay

in the issue of a loan?—We have asked that it shall be delayed. I am not talking about the terms of the loans, I am talking about the times and effects of issues.

390. I was not implying for a moment that you expressed a view about the goodness or badness of the loan, but you have expressed ideas informally as to the desirability of postponing the issue?—We have suggested, "Perhaps you had better postpone it."

391. *Mr. Brand*: Has not the Bank gone further and taken a stand against all short-dated loans? Ever since the War the Bank has expressed a strong opinion against short-dated loans?—You are talking of foreign loans; that is a different matter. I was thinking more of the loans of the class of municipalities and Colonial Governments and British Government and issues of that sort.

392. *Professor Gregory*: I take it that your approval, or your unofficial expression of opinion, we will say, is expressed more decidedly when it is a question of a foreign loan than when it is a question of a domestic loan?—Yes. They come as a rule and ask us if there is any objection, and if we see obvious objections we say so, and I am bound to admit that as a rule, as a general rule, they accept our word and act very loyally.

393. *Mr. Keynes*: It is generally believed that what is called the unofficial embargo on foreign loans has played a dominant part in this country. Can we hear about the method of the unofficial embargo on foreign loans?—I think I am right in saying it was a pure matter of moral suasion. When it was decided that it was not to the advantage of this country that foreign loans should be issued we did let it be known, or if anybody came to us or if we heard of cases where an operation was pending we did, on occasion, send for the people and say, "We think that on the whole it is to the advantage of the community that this operation should not take place just at this time."

394. Can you tell us whether the wishes of the Bank of England are generally observed?—Yes.

395. *Mr. Brand*: Would you say that they are observed far more than the wishes, for instance, of the Federal Reserve Board?—I should say undoubtedly so; it is quite the exception for the wishes of the Bank of England not to be observed.

396. *Mr. Keynes*: You do not think that the firms who wish to act in the public interest would be at a disadvantage in comparison with those who are less well disposed?—I do not think so.

397. The present practice works sufficiently well?—I think it does.

(*Adjourned until Thursday next, the 12th December*, 1929, *at* 4.30 *p.m.*)

FOURTH DAY.

Thursday, 12th December, 1929.

PRESENT:

The Rt. Hon. H. P. MACMILLAN, K.C., *Chairman.*

Sir THOMAS ALLEN.
The Rt. Hon. LORD BRADBURY, G.C.B.
The Hon. R. H. BRAND, C.M.G.
Professor T. E. GREGORY, D.Sc.
Mr. J. M. KEYNES, C.B.
Mr. LENNOX B. LEE.
Mr. CECIL LUBBOCK.
The Rt. Hon. REGINALD McKENNA.
Mr. J. T. WALTON NEWBOLD.
Sir WALTER RAINE.
Mr. J. FRATER TAYLOR.
Mr. A. A. G. TULLOCH.

Mr. F. W. LEITH-ROSS, C.B.
Mr. G. ISMAY, *Secretary.*

Sir ERNEST MUSGRAVE HARVEY, K.B.E., Deputy Governor of the Bank of England, recalled and further examined.

398. *Chairman*: Professor Gregory has one or two questions he would like to ask you, Sir Ernest, in connection with the discount market before you proceed to other matters. *Professor Gregory*: You stated in your evidence that the Bank does not, in fact, determine the price which the discount market shall charge for discounting bills. I take it that we are not to infer from that that the Bank of England does not sometimes itself, directly or indirectly, operate in the market. I take it the Bank does operate in the market?—Yes, certainly.

399. Do you think it would be possible to throw some light on those operations? They are mysterious, but I think they play a very distinct part in the economy of the market?—Do you mean as to the circumstances under which we operate, or the manner in which we operate?

400. I should like you to elucidate both those points?—As to the circumstances, I think they are governed primarily by the volume of credit existing, considered in conjunction with the state of the foreign exchanges, their tendency at the moment, and the condition of the Bank's reserves, as to their sufficiency or otherwise, and as to the likelihood of their being increased or decreased. That would determine the time of operation. As to the manner of operation, it is simply conducted through a broker who operates as any other broker.

401. Do you generally, when you operate in the open market, operate through bills or through Government securities?—Generally through bills. When I say "generally" I do not wish it to be thought that we do not operate through Government securities. We may operate through Government securities, but, of course, at a time like this when the volume of bills is so much larger than in, let us say, pre-War times, owing largely to the great volume of Treasury Bills, the proportion of operations in bills is larger in comparison with securities than used to be the case.

402. I think it used to be said by experts, and it was repeated in the interviews between the Directors

of the Bank of England and the representatives of the National Monetary Commission of the United States, that you sold Consols for cash and bought them back for time when you operated in the open market. Is that a relic of by-gone days or is it done at the present time?—I should describe it as a relic of past history.

403. *Chairman*: Will you kindly resume, Sir Ernest. I think you were going next to deal with the relations of the Bank to the clearing banks?—The relations of the Bank with the clearing banks are, of course, fundamentally those of a banker and client. That fact naturally imposes on me the need for exercising considerable discretion as to what I say, because naturally there have got to be very confidential relations between bankers and clients, and certain operations if they are to be discussed or described, are better described by the client than by the banker.

404. Yes. Of course, we are going to have representatives of the banks here. It is for them, if they wish, to disclose information on their side. They are not, of course, under the seal of confidence that you are?—No. The Bank acts, as I say, as an ordinary banker towards clients. That is to say, we supply them with currency as they may require it and, of course, in this connection the Bank have special obligations, being the controllers of the issue of currency. They issue currency, they receive currency, simply according to whatever the banks may choose to demand or pay in. The decision as to that rests entirely with them. We exercise no control over what they choose to draw out or pay in. Our aim is to allow currency operations to work absolutely freely according to the requirements of the moment. Then the Bank acts as the agent for the Clearing House for the settlement of clearing differences between bank and bank. The banks present their claims on each other in the Clearing House. A balance is struck at the close of the day, certain banks have balances to receive, others have sums which they have to pay. The Bank is advised by the Superintendent of Clearing House of the amount which each bank has to receive or pay and settles those sums by mere transfers to or from the accounts of the several banks.

405. A concentration of the day's activities?—Exactly. It has no effect whatever upon the total of the bankers' balances, the aggregate remains the same, but the distribution between banks may vary considerably.

406. *Sir Thomas Allen*: That is, the bankers' balances with you?—That is the bankers' balances with us. Those balances, of course, that the bankers keep with us are regarded by them and by the world at large as part of the cash holdings of the bankers.

407. *Chairman*: Liquid assets?—Liquid assets, cash assets. Of course, they have in addition their own cash holdings. These consist of till money, the sums required to meet the ordinary operations of the day between themselves and their own clients, and may consist in addition, and no doubt do consist, of a certain reserve over and above till money requirements to meet exceptional contingencies. As I said before, the Bank have no means of measuring the extent of any reserves of that category which they hold except on one day in the year, the 31st December, when the bankers all publish balance sheets on the same day, and by aggregating these cash balances and deducting from them the amount of cash which we know they hold with us we are able to arrive at a fairly correct figure as to the total amounts of cash which they themselves hold. But we only know, of course, the amount they hold on the last day of the year; if they do hold such reserves as I describe they may vary considerably during the year; those variations we have no means of measuring. In pre-War times a good deal was written and said about the cash reserves held by the bankers in addition to the central cash reserves held by the Bank of England. In addition, of course, there was the further cash reserve which consisted of coin in the pockets of the people. Well, since those days I am inclined to think that opinion has rather inclined towards the view that centralisation of reserves offers, perhaps, an opportunity for greater economy in the amount of unremunerative cash which exists. Of course, so far as the old cash reserves in the pockets of the people were concerned there was always the danger—not, I think, always realised—that if an attempt were made to mobilise them there was always a risk, and I think we proved at the outbreak of War that it was a real risk, that there might be a leakage; those cash reserves would not all find their way to the central reserve if an attempt were made to mobilise them.

408. *Sir Thomas Allen*: Would that involve a leakage out of the country?—Out of the country, or, in hoarding. Now, as regards surplus reserves of cash held by banks I do not wish to discuss the question as to whether and to what extent they are desirable, but I wish to point out just one or two facts. In the first place, if there is a demand by the public for increased currency, to the extent to which that increased demand may be met by bankers out of their reserves, there is no indication to us certainly, or to the public, that there has in fact been an increased demand for internal circulation. In the same way if notes are returned from currency and are used to add to a banker's internal cash reserves, the fact is not indicated. We realise, of course, that in an emergency—such an emergency, for example, as an interruption of communications or any other cause—banks must be assured of being able to obtain sufficient currency to meet the demands of their clients. For that reason the Bank of England do, at their branches distributed about the country, hold considerable reserves of notes which are available for bankers in times of need.

One question has occurred to me from time to time, and it was brought home rather forcibly to us a little while ago when we had representations from the North of Ireland, currency notes being legal tender there, that the currency notes in circulation there were deteriorating as to condition very seriously, and that the only way that the banks there could remedy the situation would be to send the notes to the Bank of England and withdraw new notes in their place. But such an operation, of course, involves the banks in considerable expense. They are live notes. They have got to be insured; in addition to freight they have insurance to pay, and the Irish Banks did represent to us that they considered it rather a hardship that a currency which had been made legal tender by the Imperial Parliament, if it was to be kept in a fit condition, was to involve banks at a distance in expense which was not incurred by banks nearer home. Well, we have overcome that difficulty. We have sent representatives from time to time to Northern Ireland and are continuing to do so. They are collecting the worn, dirty notes which are unfit for circulation, we send over supplies of fresh notes, we take from them the old notes, and by that means we are gradually restoring the condition of the currency. But that has raised in my mind the question whether now that the Bank of England notes of £1 and 10s. are legal tender in Northern Ireland and Scotland, it may not be desirable for the Bank to establish in Northern Ireland and in Scotland—I will not say branches, or even agencies—depots of currency to which the banks can have access, to which they can return their worn and dirty notes, from which they can obtain supplies of clean notes and even supplies of additional currency when required. Of course, there might be a little expense involved. That does not concern the Bank; that would concern the Treasury as the receivers of the profits of the Issue Department, but I am sure from the conversations I have had with representatives of the Treasury that no obstacle would be raised in that quarter.

There is another fact to bear in mind as regards these reserves of banks. When these notes are held by banks they form part of our published figures of notes in circulation; they are live notes, they are idle cash, serving a useful purpose, I admit, and a necessary purpose as a cash reserve. But when notes are held by the Bank of England in store they are merely pieces of paper, and I am not sure whether a greater reliance on stores of notes within the Bank might not perhaps lead to some economy and I have a feeling that it would, at any rate, enable a truer estimate to be formed as to the real volume of currency needed for the day to day requirements of the public.

As to the relations of the Bank with bankers, I am happy to say that looking back over a long period of years I think I can claim that there has been a steady improvement in the relationship existing between them. I think the co-operation steadily improves. We are in frequent informal intercourse with the representatives of all the important banks. We have even, by the kindness of the banks, an arrangement now by which once a quarter the meeting of the clearing banks is held at the Bank of England with the Governor, just for that occasion, in the Chair. I do not say that the meetings are always occasions when great subjects are necessarily discussed, but they do maintain regular touch between the bankers as a body and the Bank which formerly did not exist, and I think that their effect has been good.

As regards the functions which the Bank performs for other banks, I have said that the relations are fundamentally those between banker and client, but with one important exception certainly. It is not ordinarily the practice of the other banks to come to the Bank for accommodation. I do not say that it is not done, but that is not the ordinary practice. As I explained before when referring to the discount market, the normal practice when a bank requires to improve its cash position is for that bank to withdraw call money from the discount market, to leave the representative of the discount market from whom the money has been called either to find it elsewhere in the market, or, if it cannot be obtained there, to come to the Bank of England. Ordinarily speaking, clearing banks cannot reduce the total of the balances which they hold at the Bank except by drawing notes or gold. They may, of course, be called upon to provide moneys taken in by the Government, say, for taxation, they may have to provide money because the Bank itself has effected some operation which shortens the volume of money which they hold, but, ordinarily speaking, the banks cannot themselves affect the aggregate of their balances except by drawing notes or gold.

Well, Mr. Chairman, I really think that that more or less exhausts, so for as I am concerned, the relations between the Bank and the bankers, but if anybody wishes to ask any questions I will do my best to answer them.

409. *Professor Gregory*: I would like to ask some questions which Sir Ernest may not care to answer as they are questions which in the long run involve policy. The first question is whether Sir Ernest thinks that any public purpose could be served by formal representation of the joint stock banks on the Board of Management of the Bank of England? So far as the absence of representatives of the joint stock banks is concerned I think the system differs from any other central banking system in the world?—I am not prepared to answer. I cannot quote the instance, but I have a feeling that in one case at least where that arrangement existed it has been terminated as the result of experience. I cannot name the case at the moment, but I have a feeling that that is so.

410. The next question that I should like to ask is this: Assuming that the character of the London money market alters somewhat in the future, that the supply of bills coming forward for discount becomes rather smaller and that the discount market loses some of the importance which it has had in the past—I think there might be a tendency for that—do you not think something might be said for the development of regular borrowing arrangements between the joint stock banks and the Bank, particularly at the termination of a quarter or some such period as that?—Well, I have always regarded the advantage of the existing system to be that it does enable the banks to meet their own requirements with the greatest economy. Whether if there was a regular practice by which the banks came to the Bank, it might result in possible over-borrowing I do not know.

411. As things actually are, do you not think that there is some danger of the course of rates in the London money market being quite unnecessarily upset when a fairly large number of joint stock banks are calling in money?—I think I can say on that point if any operation of that kind occurs the Bank are generally careful unless the protection of the currency of the country is involved, of the gold reserves which constitute the foundation of credit—unless there is danger to them the Bank usually take pains to arrange that the operations of the banks shall not unduly inconvenience the money market.

412. May I ask you a question with regard to a field of possible activities of the Bank of which you have not spoken, but which, I think, is important; that is, in regard to the supply of statistical information. I should like to ask you, Sir Ernest, whether you have ever considered the possibility of the Bank issuing an Annual Report on the lines of the Annual Report of the Federal Reserve Board, for instance?—I will not say I have not considered it, but I cannot honestly say that I have considered it to the point of coming to any definite conclusion. I should like to say this—I shall come to it a little later—that we already do supply purely statistical information to our foreign Central Bank friends monthly. It is at present circulated only to them. Whether it would be an advantage to circulate it elsewhere I do not know. After all, it is really a collection of information which is already available, most of it, in other directions, and is merely collected for the convenience of our foreign correspondents who have not possibly the same means of turning to the sources from which we get it. I have a specimen of it here. I will tell you the type of thing it deals with. It deals with the Bank of England itself, its own figures, with those of clearing and other banks, money and bill rates, foreign exchanges, bank clearances, public finance, floating debt, security prices, gold, overseas trade, commodity prices, indices of wholesale prices, retail prices, cost of living, unemployment, trade disputes, British postal receipts, production of staple commodities, building, shipbuilding—the information may vary according to whatever is most important at the moment—capital issues, railways and shipping, and information of that description. With Empire Central Banks, of course, we have specially intimate relations, and to them we write every fortnight a rather voluminous letter which is a general review of conditions here in this country, of foreign conditions as we view them where there has been any marked change or any occurrences of special importance in Continental and foreign countries, and if we may judge by the letters we receive from these banks the information is much appreciated. When it comes to the question of the Bank itself publishing an Annual Report I confess I am sometimes nervous at the thought of publication unless it is historical. The question is whether, when it is merely historical it is of any particular value, or whether from the fact that it is issued from the Central Bank undue importance may be attributed to certain things which are stated, more importance than perhaps they merit.

413. I suppose you yourself are quite familiar with the publications of the Federal Reserve system?—I am.

414. *Mr. McKenna*: Amongst the causes of variation in the aggregate of the clearing bankers' balances at the Bank of England we may reckon, may we not, the currency demands by the public and, secondly, the transfer of money from customers of the banks to a customer of the Bank of England who is not a customer of the banks, such, for example, as the Government?—Certainly. I think I stated that.

415. You stated the latter, but did not refer to variations in the currency in circulation?—No.

416. In your experience it is a fact, is it not, that at certain seasons of the year there are unusual demands by the public for currency?—Certainly. When you say "unusual"——

417. I mean exceptional.—They are, as a rule, "usual" when related to particular seasons.

418. They are usual at that season; they are seasonal demands?—Yes, seasonal demands.

419. It is also within your experience, is it not, that in the first three months of the year there are exceptional demands by the Government upon the customers of the clearing banks?—Yes.

420. It follows, does it not, that when there is this seasonal demand for additional currency and when there is an exceptional demand by the Government for taxes, at all those periods the clearing banks have less than the usual balances with you?—No, I cannot admit that. Let me take the first three months of the year. The Government is receiving the revenue from income tax, super-tax and so forth. The Government does not take that money to keep it lying idle. As it takes in the money its practice is to reduce its offerings of Treasury Bills, and so as the money comes in the money goes out and the position is kept fairly level.

421. I agree with you that ultimately there is no change because the money goes out again, but I put it to you whether from your experience it is not a fact that there is always a lag in the return of the money, both from the public so far as the circulation is concerned and from the Government so far as taxation is concerned?—I should say that as regards that lag, if the circumstances of the Bank's reserves, the exchanges again, and the various matters I have referred to before warrant it, it is the practice of the Bank of England to try and minimise that lag.

422. I am not saying what the Bank of England do. I only want to know, does the Bank of England in practice watch from day to day at these special seasons whether the banks are maintaining their usual balances?—Absolutely.

423. *Mr. Keynes*: Arising out of Mr. McKenna's last question, is it not a statistical fact that the balances of the clearing banks are less in February, for example, than the average of the year?—It may be.

424. What reason is there that year after year the Bank of England should not rectify that position?—We have to judge as to whether the balances, though less than normal, are sufficiently less to need adjustment by the Bank, or whether the comparison is due to the fact that at other periods the balances may be in excess of requirements.

425. If the balances of the clearing banks were £2,000,000 less, that would mean that the banks could lend approximately £20,000,000 less to industry. Is there any reason why the requirements of industry should be less in the Spring than in the rest of the year?—Not that I know of.

426. I have heard the argument expressed—I do not say that I support it—that one of the reasons why we often see reaction in trade in the second quarter of the year after a rather promising beginning is because banks habitually have to curtail their accommodation during the period of income tax collection for no obvious reason except that the Bank of England has refrained from rectifying the position?—I cannot admit that the Bank does so refrain.

427. Well—does not. There is no difficulty in rectifying it, is there? The Bank simply has to buy £2,000,000 of bills?—That is quite true. You must remember this, that there is much of taxation which comes in on certain days of the week, and while you may have over a period the Government taking a considerable sum of money, you may have a week in which they take in a considerable sum, say, on one day, and then there is a period when things are easy again, and then you will get another day——

428. I am not speaking of days; I am speaking of a period; a month, for example; or two months?—The Bank does its best. If it does not succeed, well, I can only express regret. That they do attempt to do it I can definitely say.

429. Would it be possible to give us figures showing the average of the clearing banks' aggregate balances in the Spring, month by month, as compared with the average of the year?—From the banks' published returns? They only publish averages, of course. I do not know whether we ought to publish their figures. After all, here we are in the relation of banker and client, and we do not publish any of their figures. We leave it to them to publish what they think fit; if they see fit to do it I see no objection.

430. *Mr. McKenna*: I think you do now publish the aggregate?—We publish, of course, our total every Wednesday night. Those figures are available; they are already available.

431. You publish the aggregate of our balances every week?—Undoubtedly, on one day of the week.

432. *Mr. Keynes*: Of course we have not got those figures for back years. *Mr. McKenna*: If we had those figures for back years I think I could show you that the aggregate is always lower in the first quarter. *Chairman*: Is it an erratic fluctuation? I rather gather from Sir Ernest it is not a question of a rapid diminution. *Mr. Keynes*: No. During the period of income tax collection there is a constant transfer from the clearing banks to the Treasury which is not rectified by the Bank of England. *Mr. Lubbock*: I have all the published figures of the banks since November, last year, and I cannot see that February shows any great decrease, so far as the past 12 months are concerned. *Mr. Keynes*: The only figures I have been able to examine are the reserves which the clearing banks themselves publish over a period of years. *Chairman*: It is a pure question of fact, that can be cleared up perfectly easily by the bankers themselves. The question put to Sir Ernest is this: Whether, that phenomenon existing, and possibly having repercussions on the industrial position, appropriate steps have been taken by the Bank to obviate what we may call the seasonal diminution of credit. I rather gather from him that their effort is to smooth out the irregularities. The question how far they have succeeded in doing that is a different question?—We endeavour to do it with the co-operation of the Treasury, who, as I say, are receiving the money, and are repaying Treasury bills. The matter is governed to a certain extent by the maturities of the Government bills.

433. *Mr. Keynes*: There is no need to depend on the Treasury, is there? The Bank can itself purchase bills, and habitually does so?—That is so, but if we go into the market to-day and purchase bills, and the Treasury happen to have a large maturity which they are very anxious to reduce in order to even their maturities within a day or two days——

434. I am not speaking of day to day fluctuations?—No.

435. Arising out of Professor Gregory's questions, is it a practice of the Bank of England never to explain what its policy is?—Well, I think it has been our practice to leave our actions to explain our policy.

436. Or the reasons for its policy?—It is a dangerous thing to start to give reasons.

437. Or to defend itself against criticisms?—Because the reasons very often are based on information which has been obtained in the strictest confidence, sometimes from foreign countries, and which we should not feel ourselves at liberty to publish. As regards defence against criticism, I am afraid, though the Committee may not all agree, we do not admit there is need for defence; to defend ourselves is somewhat akin to a lady starting to defend her virtue. *Chairman*: I think Mr. Keynes will agree with me that this is a general question. If you decide to rely on the discretion of a person then you must accept his decisions. They are not examinable. Where you leave the decision of a matter to a man's discretion and he gives no reason for his decision, then you must accept that decision. Take the case of a company. Share transfers may be rejected by a company without reasons being assigned. The decision as to whether or not they will accept a transfer is left to the discretion of the directors. If they do state their reasons, then these reasons become examinable. The question whether you should repose discretion in a person is another matter, but if you do repose discretion in a person then you must accept his decision.

438. *Mr. Keynes*: The policy of the Bank of England very often requires the co-operation of the joint stock banks and the rest of the money market and issuing houses. Is it easy to rely on that co-operation if those bodies have no means of knowing what the policy of the Bank of England is?—They have means —quite informal, quite unofficial.

439. They may know what the wishes of the Bank of England are in respect of particular actions, but do they have an authoritative statement as to what the policy of the Bank of England is over important periods of time?—They have no formal statement of policy, no.

440. Does it not, perhaps, sometimes prevent the success of any policy, that whereas it is being perpetually discussed in public no one knows on which side of the discussion the Bank of England itself stands?—There is one objection. I should hesitate to bring a charge against anyone, but, if we state a definite policy, we may give the opportunity to certain people to take advantage of what our intended actions may be, and with that knowledge enable them to take advantage of the situation for their own benefit, and it may mean that if we have to take a certain course, it may have to be a longer course than if we take it without any previous announcement. Do you understand my meaning?

441. Does not the policy of secrecy as to its intentions deprive the Bank of what I might call the collective wisdom of the community? These questions are very difficult and very novel. They require a great deal of co-operative thinking by all people who are competent to contribute to the common stock. Does not the policy of secrecy of the Bank mean that no one outside the Bank can express an opinion which is founded on sound information?—These are difficult questions to answer without time for more consideration.

442. *Professor Gregory*: Even half a generation ago, banking policy was a matter which did not intimately concern the lives of millions of the population. At the present time the Central banking policy has a very intimate relationship with social and political policy; it necessarily must have. Do you think there is a danger of the Bank of England being misunderstood even more by publishing no information than it would be by publishing partial information?—This seems to be rather a question for others to answer. *Lord Bradbury*: Is there not a difference between the publication of information or figures that are not published now and a general discussion of the credit situation, and the Bank of England giving reasons why, at any particular time, it lowers Bank Rate? I think myself that would be a very different thing, but the publication of a good deal more information than is published now and the general discussion of the credit situation might be useful. *Chairman*: These are different points. I think we are probably all inclined to agree that the information available for public discussion is inadequate at present, and it may be necessary to give more data. *Lord Bradbury*: I can back up Sir Ernest Harvey in one thing, the Federal Reserve System, when I was last in America, made a public announcement which led everybody to think that the rate would be raised; then there appeared to arise an internal difference of opinion and the rate was not raised. Meanwhile, the whole market took certain steps thinking that the rate would be raised, and it was not raised, and the Federal Reserve System came in for a great deal of blame.

443. *Sir Walter Raine*: Does the Bank of England settle the amount of Treasury Bills that is to be issued each week?—The Treasury settle that figure.

444. *Mr. Keynes*: I should like to ask a question on the first part of Sir Ernest's evidence. Is there any minimum figure of bankers' deposits which you expect them to carry?—None.

445. Do the bankers, in fact, keep with you more than is necessary for their convenience, or more than is necessary for obtaining an emergency supply of notes?—On some days, certainly.

446. But on an average?—Well, I think they should be asked that question, because I do not know what kind of obligations may come upon them, and they do.

447. Does not the Bank of England deliberately aim at a given figure at any given time for the aggregate of the clearing banks' balances?—No.

448. Does the Bank ever suggest to the clearing banks that they should maintain rates at an agreed level, for example, for call money?—I have never known of it being done, but the question had better I think be addressed to the Governor; I do not know whether he has ever suggested such a thing to them at some time when I have not been present.

449. It is commonly alleged that the balances which the joint stock banks keep on the day of the week on which they make up their accounts is an artificial figure higher than the average. Is that correct?—Am I at liberty to answer a question like that? I think you should ask the bankers that.

450. *Sir Thomas Allen*: I would like to ask Sir Ernest if he would care to state definitely whether it is his view that the demands of the Government at certain periods of the year definitely affect the amount of credit available for industry?—Well, that is a point I was coming to when I touch on the relations between the Bank and the Treasury.

451. You spoke of the closer relationship which now exists between you and the commercial bankers and the improving co-operation which has taken place. Would you care to elaborate that a little further for our assistance?—I do not know that I can add much to what I have said. It is general in tendency, it is not specific in any way, but I think I can claim that there is really a complete contact with them and that every banker recognises that he can come at any moment to the Bank and consult them on any matter of any importance, and that he will find the Bank responsive.

452. You spoke of your relationship with the bigger banks. I take it you mean what is called the "Big Five"?—No; I include all the clearing banks, all the bankers, in fact, who are described as bankers in the Bank Return.

453. Any banker may come to you and apply for information?—Certainly. May I pass now to the relations with the Treasury?

454. *Chairman*: Please?—Here, again, of course, the relations are fundamentally those of banker and client. The Bank of England keeps the main Government balances. It is in daily touch with the Treasury, sometimes many times a day. Probably twice in the week—if circumstances require it may be oftener—the Governor himself will pay a visit to the Treasury, sometimes accompanied by myself. When he is away, I pay such visits in his place. We

have no secrets from them, we keep them fully acquainted as to the general trend of affairs in the City and the outlook, as we see it. We, on our part, never venture to interfere on any question that can be considered a political question, unless we are asked to express an opinion as to what the financial effect of a certain political operation may be. If we are asked, we give our advice, but we never seek to interfere in politics. The Treasury, on the other hand, are good enough to reciprocate; that is to say, that, whilst we keep them fully informed as to the general trend of affairs in the City, as to any occurrences of importance affecting the position of finance and credit, they do not seek to dictate any alternative line of financial policy if we, in our judgment, consider a particular line of policy essential for the protection of the country's main reserves. As regards other Government Offices, we have no direct contact without the knowledge and approval of the Treasury. In fact, it is with few of them that we have direct contact at all. If other Government Offices desire the opinion of the Bank on any subject, as a rule they obtain it through the Treasury.

Apart from these visits that I have spoken of, it is the practice for the Governor to visit the Chancellor of the Exchequer at fairly frequent intervals, and to keep him also fully informed. And I suppose I need hardly say that the colour of the Government of the moment has absolutely no influence whatever on the nature of these relations. The Bank undertakes the issue of all Government loans, including Government guaranteed loans. It manages the stocks, pays the dividends, conducts any drawings, registers transfers and performs all the ordinary work which a Registrar would perform. We conduct the weekly issues of Treasury Bills, but always in the presence of a representative of the Treasury. That representative determines the amount of the Bills to be sold. He determines the amount to be offered for the following week, but, of course, our advice is always freely at his disposal. The Treasury tell us their views as to probable income and expenditure in the near future, and, in the closest collaboration, we endeavour to ensure that the ebb and flow of those movements in Treasury finance shall not cause any unnecessary or avoidable disturbance in market conditions.

Now, the Chancellor of the Exchequer has declared it to be his policy to reduce the floating debt, a policy with which the Bank are in entire concurrence. But in this connection there are just three points that I want to mention. If the floating debt is allowed to become unwieldy, it entails a very large offering of Bills every week, and if that weekly offering is allowed to become too big, it is obvious that certain dangers may arise, certain difficulties for the Bank, for example, in the control of the situation in any time of doubt and difficulty. If the amount gets too large and the market has doubts as to the future course of rates, it may be difficult to issue the Bills. On the other hand, at a time when there is, perhaps, a shortage of commercial bills, especially having regard to increased deposits of the bankers, who must find liquid employment for a certain proportion of their funds, a reasonable amount of bills does provide a convenient medium for maintaining the efficient working of the Money Market and enabling the banks to preserve that degree of liquidity which they regard as essential. A moderate amount of Treasury Bills also provides a convenient medium for enabling the Treasury to adjust its own position, having regard to the inequalities as between the volume of receipts from revenue and the volume of payments for services, debt and other purposes. A reasonable amount of Bills thus affords the Treasury a means by which they can avoid the necessity of being forced, at times when they are receiving money, to carry unnecessarily large idle balances. Therefore, although it is sometimes said that the floating debt—the rate of interest on which is not fixed but varies with market rates of discount, may, if rates are high, be expensive—which I do not deny for a moment—nevertheless if kept within manageable limits, it does, on the other hand, provide a means whereby the Treasury can and does secure a fairly effective degree of economy in operation.

If we want a tribute to the efficiency of the system, I do not think we need look further than this week's newspapers, where we see that the United States, for I believe the first time in their history, have made an issue of Treasury Bills on lines precisely similar to those followed here. They have embarked on this—I do not think it is indiscreet for me to say so—after long talks to us about the system, and, for all I know, after similar talks with the Treasury, regarding the working of the system, and I think we are entitled to take that as a tribute to its efficiency.

The Bank acts, of course, as the financial adviser of the Chancellor of the Exchequer. It does not seek to impose unsought advice, but, as I have already explained, its advice is always freely and fully at his disposal and, at the same time, it is able to act on occasions as a mouthpiece of the Chancellor to the City. That is a brief outline—for I feel I must be brief if I am to finish within the time available to me—of the general relations between the Bank and the Treasury, completely close, completely cordial, and I thing the Treasury would bear me out in saying that, in the Bank's attitude, and in their relations with them, they do help the Government to secure the maximum of economy. I do not know, Mr. Chairman, whether anybody wishes to ask a question before I proceed?

455. *Mr. Keynes*: Would Sir Ernest agree that, the larger the volume of Treasury Bills outstanding, the easier it is for the Bank to make Bank Rate effective?—Not beyond a certain volume, no. I think when you have sufficient for the purposes I have mentioned, anything further is undesirable. For, remember, we have a fiduciary issue of £260,000,000, and with that large amount any addition to the floating debt should, in my judgment, be kept within manageable proportions, and you must bear in mind that, if this form of debt is allowed to get too large and the weekly offerings of bills become too great, you do run grave risk of creating difficulties.

456. *Mr. McKenna*: Could you conveniently let us have figures showing the average cost to the Government of Treasury Bills for the last seven years, from 1923 to the present day?—Yes, if you mean the average cost of public issues.

457. You would not mind?—Certainly not. *Mr. McKenna*: One figure only will be needed, which will be the average cost of public issues of Treasury Bills over the whole period. I am leading up to the point that I think events will show that it is the cheapest form of borrowing that the Government has had for the last seven years. *Sir Walter Raine*: Might I suggest that it would be more interesting to have a figure for each year? *Mr. McKenna*: Well, it will be prepared for each year, but we can divide it by seven for ourselves.

458. *Mr. Keynes*: I gather that it is your opinion that the idea of a large volume of Treasury Bills being dangerous is a fallacy and that the opposite is the truth, namely that a substantial reduction of Treasury Bills might be a very grave danger to the present method of regulating the effective rates on the market?—I think that, if the reduction was too great, you would run a risk, perhaps, of clogging the machinery of the market, and you would deprive the Government of a convenient method of adjusting their accounts.

459. We understand that some of the Treasury Bills are held by Government departments, some are held by the Bank itself, some by the money market, some by the joint stock banks and some by other holders. We have no figures of those five items separately; I do not know whether they

could be given. Whether they can be given or not, would it not be the case that any material reduction in the amount held otherwise than by the Government and the Bank itself might very soon produce the effect which I am fearing?—It might. As I have indicated, it might if the reduction was too rapid or too great.

460. If the reduction of the floating debt merely means that the Issue Department of the Bank of England holds more long-dated securities and fewer short-dated securities, then, obviously, there is nothing in what I am saying; but if it had the effect that the supply of bills to the outside market was materially reduced below its present level, would you not very soon reach the danger point?—That is the point I had in mind, that you have, in my judgment, got to have sufficient to keep the market working. But even in recent times the market worked quite well on considerably fewer bills than exist at the moment.

461. *Sir Thomas Allen*: Would not Sir Ernest agree that it is of enormous importance to the banks that they should have considerable short-dated securities in order to keep a certain amount of assets liquid, and that the real rate of interest is not the most significant factor?—They must indeed. That is partly what I have in mind when I say that in my judgment, whilst there are not enough commercial bills you must have a certain volume of Treasury Bills to keep the market working. When I say the market I have not in mind just the discount market, I have in mind the banks and their need to maintain the requisite degree of liquidity. *Sir Thomas Allen*: I would not care for too much emphasis to be laid on the rate of interest for these short-dated securities.

462. *Mr. Frater Taylor*: Does the Treasury budget ahead with you, or is it somewhat hand to mouth?—We form our estimates generally about three or four weeks ahead; we can of course form reliable estimates of major operations like maturing debt and so forth; as regards such items as income and payments on Government account we generally form estimates for about three or four weeks ahead, and, of course, we revise those estimates from week to week. So that we are always estimating about four weeks ahead, but revising estimates previously made for a particular week as it draws nearer.

463. *Sir Thomas Allen*: Do you know of any definite cases where money has been kept off the market arising out of a certain expectancy that the Treasury will be wanting money which otherwise might reasonably have gone into industry?—Do you mean, kept off the market by the Treasury?

464. No, kept off the market by the bankers in anticipation of Treasury issues?—No. We have nothing but the total of the bankers' balances to judge by. We do not know for what purpose those balances may be allowed to increase and have little means of judging the question.

465. *Lord Bradbury*: Might I put a question of a rather general nature? I think it would be rather useful to get a reply for the information of the Committee generally. I believe that before the War the normal maximum of Treasury Bills outstanding was something in the neighbourhood of £30,000,000. The present total, I think, is somewhere in the neighbourhood of £800,000,000?—That is so.

466. To what general cause has it to be attributed that the present needs of the market for a security of that kind should be so very much in excess of the pre-war needs? I take it there is general agreement that although £800,000,000 is a very high total there would be no question of a reduction to anything like the pre-War figure?—In looking at the present total of £800,000,000 you must not forget that, as I have said before, the Issue Department has a fiduciary issue of £260,000,000, and, as I mentioned when going through the Bank Return, a very considerable proportion of the Government Securities in that Department consists of Treasury Bills. Therefore, £800,000,000 must not be taken to be the total of the active volume of bills. Then, again, there are other factors. We know that some foreign countries which were in the habit in pre-War days of holding considerable amounts of gold against their notes now hold Treasury Bills to some extent in lieu of gold. There are other similar classes of special holders. Therefore, the volume of £800,000,000 that you see published must not be taken as the measurement of the volume of Treasury Bills in active circulation in the market. But, even allowing for all special holders, I recognise that the volume is vastly greater than it was. For one thing, the volume of commercial bills is, I should say, less. There has been perhaps a tendency in commerce to replace financing by bills by financing by overdrafts, which has accounted for some of the reduction. Then it has to be remembered that the volume of the bankers' deposits is enormously greater, and that their need for cash or absolutely liquid security is therefore much greater; I should say that much of the increase is due to those causes. Take foreign holders of balances in our market. I do not know how their holdings compare with foreign balances of pre-War days, but I should judge that foreigners are considerable holders of Treasury Bills at the present time. My point, therefore, is, that though the total volume does look enormously greater, the actual volume in what I may call live circulation probably has not increased to anything like the extent to which it might appear to the casual observer.

467. It is sometimes a little difficult in these complicated matters, when you have cause and effect, to say which is the cause and which is the effect. Is it possible that what I may call the decay of the commercial bill may be to some extent the effect of the existence of a large number of Treasury Bills?—I think not. If you ask me why I think not, my opinion is based on the experience which I had when I visited Australia about three years ago. Exactly the same thing has happened there—the bill has gone out of favour and the overdraft has taken its place. It is a question I went into pretty closely when I was out there. There were various reasons, but exactly the same phenomenon has occurred out there.

468. Do you make the same reply in regard to bankers' deposits? May not the enormous growth of bankers' deposits be due to a very large extent to the floating debt?—Well, of course, if it enables bankers to keep additional reserves of liquid assets, such as call money which the market can invest in bills, it may give the bankers the power to create more deposits by advances. I should not like to attempt to determine which is cause and which effect. *Lord Bradbury*: I do not want to pursue the question now. It is a very abstruse question. I rather wanted to get Sir Ernest's *prima facie* opinion.

469. *Mr. Brand*: When you say "diminution of commercial bills" you mean diminution of internal commercial bills?—Yes.

470. Not commercial bills financing foreign trade?—No.

471. *Sir Thomas Allen*: Have you any fear that the overdraft is superseding the commercial bill?—I think it is doing so and that it is regrettable. I did my best to persuade the bankers in Australia to attempt to revive the use of bills. There were in that case fiscal difficulties in the way. I discussed it with the Prime Minister and the Treasurer, and I think they appreciated the desirability of securing a revival of the use of bills. The reason I think it regrettable is that an overdraft is not a very liquid asset, unfortunately. A bill can be bought and sold at any moment, and a bank that holds bills can pass over its assets, if it requires, with much greater ease and facility than assets in the form of overdrafts.

472. Would you say it was equally regrettable for Great Britain as for Australia, in view of our better industrial security and the more secure industrial situation?—Of course, within certain limits I should

always prefer the bill to the overdraft, as the more mobile instrument.

473. *Sir Walter Raine*: May I ask if the reason for the overdraft coming into favour, as against the commercial bill, has not been because the various trades insist on the buyer making his arrangements with his banker, instead of, as used to be the case in many trades, giving a bill?—I am told that in many cases the reason is the fear of the debtor that if he finances by means of a bill he will have to pay interest for the whole currency of the bill, whereas if he obtains an overdraft he simply pays interest on the fluctuating debit balance from day to day. He usually pays a higher rate, of course, in the case of an overdraft.

474. But is it not a fact that the various trades have considerably shortened their credit? I just mention the coal trade. In pre-war days in South Wales we used to pay in a month, in the north of England we used to pay in 14 days; now, by Government order, everybody has to pay for export coal in seven days. Now, in the pre-war days, of course, you got your money in without giving a bill. I just mention it as an illustration, and I believe, from what I know, it is a fact in other trades that the trader says to the buyer, "You must make arrangements with your banker and not ask us to take bills"?—I am afraid I do not know enough about that subject to answer.

475. *Chairman*: Has the incidence of the stamp duty had anything to do with the replacement of the bill by the overdraft?—It had in Australia, certainly, but not here.

476. Now, perhaps you will pass to the subject of your relations with foreign Central Banks?—I have told you earlier that in our relations with foreign Central Banks there is absolutely no idea in our mind of seeking to secure relations with foreign Central Banks for the sake of profit. Our object is entirely to establish close and friendly relationship, which we think may enable us, in co-operation, to find means of minimising some of the causes of international financial disturbances, which have been experienced in the past. It is perfectly true, and I admit it perfectly frankly, that with a foreign Central Bank if they approach us with a view to establishing business relations we say, "Yes," always assuming that the applicant is in fact either a properly constituted central bank or in the way of becoming a properly constituted central bank, or if we think that by establishing relations we can encourage them to become a properly constituted central bank. With any other foreigners we decline to entertain any business. We open no accounts, unless in some very exceptional circumstances it is represented to us say by the Government that it is expedient to make an exception; otherwise we open no accounts, and have not done so for some years past, for any foreign institution or person. Foreign Governments apply to us from time to time with a request that we will open an account for them. I have had one such case within the last fortnight. Our answer is always the same—we decline to open accounts for foreign Governments, but add that any proposals that come to us through a Central Bank will receive our careful and sympathetic consideration. Our object, I think, will be obvious to the Committee. Holding, as I said earlier, the opinion that a Central Bank should be the banker of its Government, our endeavour is always to guide the foreign Government into the arms of its Central Bank. We think it makes for the establishment of the right financial position.

We endeavour to cultivate the closest relationship we can with the Central Banks, not merely by correspondence, but also by personal visits. We started this policy in a humble way; in fact I am not sure that I was not, except for one or two visits paid by the Governor, the first emissary that went abroad for the Bank. I paid five or six visits to foreign countries. After a time we realised that it was necessary to develop this practice much more fully if we were to make a success of it, and we took into the Bank of England—a matter to which Mr. Keynes has alluded, I think, and to which he seemed to attach importance—several people of what he described as of the standing of the Higher Civil Service, who were able men, had knowledge of finance, and in some cases a knowledge, theoretical or practical, of central banking, and who, above all things, had a knowledge of languages. But I should be sorry if the Committee were to get an idea that the mere engagement of people of this type is all that is necessary for the betterment, if betterment be necessary, of the organisation of the Bank. I say it with diffidence, having regard to the avenue through which I have reached my present position, that there is certain knowledge, certain tradition—and by "tradition" I do not mean a hidebound objection to development—and an instinct which can only be gained by long service in a Central Bank. These are supplied by officials who are brought up in actual contact with the daily business which the Bank conducts in connection with its daily operations, its market operations, its relations with the discount market, and so on—officials such as the Chief Cashier, and so on—and in my judgment the ideal arrangement is to have both classes, and to weld them together into a real unified team working in the closest co-operation. That is what we have been aiming at for some time, and, I think, with considerable success. Even from the staff which we have recruited in the ordinary way, we are sending members abroad for months at a time to foreign Central Banks who are kind enough to take them in, and allow them to see the sort of business they are doing, the lines on which they work—they are young men, who have had experience in the more important fundamentals of our business—and the arrangement gives them an opportunity to perfect their language qualifications. That has been going on for some considerable time. Then, of course, our higher officials pay visits, and we receive visits from representatives of other Central Banks. During the past year, for example—I had the curiosity to take out the figures—we have visited—and when I say "we" I mean the higher representatives of the Bank—20 Central Banks. We have received visits, on the other hand, from Governors and higher officials, of 30 foreign Central Banks during the past year. We place rooms at their disposal; we tell them anything they want to know about our scheme, our methods, without, of course, revealing actual figures which we are not at liberty to disclose, or any information that is of a confidential nature regarding our clients, or the Government, but generally informing them as to our system. They seem to appreciate the visits; we give every encouragement and believe that the arrangement is doing good.

(At this stage the Committee adjourned until to-morrow, Friday, the 13th December, 1929, at 4.30 p.m., and it was decided to take the remainder of Sir Ernest Harvey's evidence on Saturday, 14th December, 1929, at 10.30 a.m.)

FIFTH DAY.

Friday, 13th December, 1929.

PRESENT :

The Rt. Hon. H. P. MACMILLAN, K.C., *Chairman.*

Sir THOMAS ALLEN.
Mr. ERNEST BEVIN.
The Rt. Hon. LORD BRADBURY, G.C.B.
The Hon. R. H. BRAND, C.M.G.
Professor T. E. GREGORY, D.Sc.
Mr. J. M. KEYNES, C.B.
Mr. LENNOX B. LEE.
Mr. CECIL LUBBOCK.
The Rt. Hon. REGINALD McKENNA.
Mr. J. T. WALTON NEWBOLD.
Sir WALTER RAINE.
Mr. J. FRATER TAYLOR.
Mr. A. A. G. TULLOCH.

Mr. G. ISMAY, *Secretary.*

Mr. FREDERICK CRAUFURD GOODENOUGH, Chairman of Barclays Bank Limited, called and examined.

477. *Chairman*: Gentleman, we have with us this afternoon Mr. Goodenough, the Chairman of Barclays Bank. I have had the advantage of a short talk with him and indicated to him that at this stage we will ask him to give us a description of the functions of his bank and also some account of the method of operating. He has been kind enough to tell me that he will be quite prepared to come back at a later stage, when rather more controversial issues have emerged, and to give us the benefit of his views on matters of policy. Now, Mr. Goodenough, would you prefer that I should put a few questions to you to elicit the various heads of your evidence?—I should think probably that would be easier for me, but I am prepared to follow any plan that you may wish.

478. I think we might take it in that way. First of all, would you describe to us generally the nature of the functions of your bank?—It is the same as that of other banks. Our business lies in receiving money on deposit under various arrangements as to time for repayment and as to interest and so forth, on the one hand, and then we employ the money deposited with us in a variety of ways and in such a manner as will enable us to fulfil our obligations.

479. Of course, like other banks, you conduct the banking accounts of your customers?—Yes, we conduct the banking accounts, and we render also a great number of other services, such as the custody of securities, the opening of credits, trustee business, and so forth.

480. There has been a considerable expansion of banking business in recent years, has there not; new lines of business have been taken up?—I do not quite understand your question.

481. I meant that the banks had been expanding their operations; one thing you mentioned was that they had gone into trustee business in recent times.—Yes, the trustee business is of comparatively recent years, but the banks have undertaken it just as Insurance Companies have undertaken it, and we find that it is a growing business. People appreciate the attention that they get and the care that is given to their trustee account and the safety which they derive through a bank.

482. The bank faces the public first of all as the recipient of their money on deposit, then, when the money is received, you proceed to use it in various ways?—We keep cash which is, of course, an essential function, and we employ the money in a variety of ways, either in the short term market against the security of bills or investments, or in buying bills or in buying investments or in lending money to the stockbrokers against their investments pending their being taken up permanently by the investors of the country.

483. And then a very important function is the granting of financial accommodation to your customers?—Yes, in granting loans and overdrafts to customers.

484. That is an aspect of your activities that especially interests us. I think later on you propose to say something particularly about that.—Those various methods that I have named represent our activities. I have named them in order of liquidity.

485. How are the respective proportions in which you employ your monies in these different activities determined?—They are determined very largely by experience and, of course, we have to consider what are the probabilities of calls upon us when we fix the amount of cash that we keep in our tills, and when we fix the amount that we can call back from the market rapidly, less rapidly, slowly and so forth. It is all a matter of experience and judgment according to the nature of the deposits and the class of people that one is dealing with and the way in which they are occupied and so forth.

486. Is it essential for you to maintain a certain degree of liquidity?—Yes, it is absolutely essential for a variety of reasons. In the first place you have to be prepared to meet sudden demands and you have to create and maintain a feeling of confidence, otherwise you will not be able to attract other deposits, and if you cannot attract other deposits then you fail, taking banks as a whole, to gather together the resources of the country, mobilise them and use them for the country's good.

487. Accordingly, have you so to arrange your commitments as always to preserve the necessary element of liquidity?—That is absolutely essential.

488. What are your relations in that respect with the short-term market?—We employ a great deal of money in the short-term market. We lend it against bills—that is the bill market. We lend it for varying periods. Money is lent out fortnightly, weekly, nightly, all according to the position of your book, and then you lend money to the stockbrokers for the bi-monthly account and so forth—all quite short; a few days.

489. What is the nature of the securities that are dealt with in that market; are they domestic or foreign, or both?—They are both, and international. The bills come from all over the world; they represent trading transactions from all parts of the world.

490. *Mr. Keynes*: Do you hold any bills in foreign currencies or are they always in sterling?—Always in sterling.

491. *Chairman*: Many of those bills will represent transactions not between this country and other countries, but between other countries themselves?—That might be so. I ought to say that I am speaking generally when I say always in sterling; there

might be cases where we hold bills in foreign currencies.

492. *Mr. Keynes*: A very small amount?—A very small amount; because they do not come here.

493. *Chairman*: What do you think attracts business to this country, the international business?—It is the cheapness of the London market primarily, and the certainty of obtaining gold if required in payment of debt.

494. How far do you think London is maintaining its position as compared with the pre-War period?—We have been going through a time of great world re-adjustment and there have been great possibilities and attempts to move the centre away from London to other parts of the world. My own opinion is, and always has been, that that could not succeed, largely because other markets have not the knowledge. If we, with our knowledge and with the cheap money market, could continue as we did in the past I always felt sure that the business would return, and I think there are strong evidences of that, growing day by day. There may be temporary fluctuations either in this or that direction, but, speaking generally, I consider that London is undoubtedly the centre.

495. I would like you to emphasise the features which, in your view, give that strength to the London market in contrast with other countries?—It is the liquidity, the free gold market, the certainty of getting gold in payment of debts settled in London, and also the knowledge that we have in the handling.

496. You say that efforts have been made to divert the business to other countries?—I will not say efforts, but expectations have arisen that it might be moved. At one time we used to see great attempts made to create the dollar bill instead of the sterling bill; now one sees very little of that.

497. Why do you think that has failed; why do you think our rivals have been less successful?—I think the evidence shows that London is more and more the centre.

498. That must be because of the merits of London surely?—Entirely.

499. *Lord Bradbury*: As between London and New York I suppose the question of geography comes in to a certain extent?—I would not say entirely. No, I do not think geography counts so much; I think it is the knowledge that we possess, and the knowledge that they have that they can get gold always in payment of obligations.

500. *Mr. McKenna*: Is it not price?—And price. The cheap market. I said that before. That above all things.

501. Above all things?—Well, I would not quite say above all things, but, of course, it is an essential factor.

502. *Professor Gregory*: You would not say that the efforts of New York to build up an acceptance and a bill market in international bills have been entirely unsuccessful in recent years, would you?—So far as I know the New York bill market is very small.

503. Even in international wheat and grain bills, for instance, and cotton bills?—I do not consider that that is an international market. They have had the funds to do their own finance; instead of the bills coming over here they have been held in New York on journey.

504. Yes, but surely that indicates that a certain amount of the short term financing of the world's credits is being carried in New York?—That is perfectly true. One cannot tell how long that is to continue, but if the United States got back into the position of being a debtor country she would not be able to maintain that position, she would not have the funds.

505. That probability is not a very great one?—I do not know. It depends on how long a view one takes.

506. *Mr. Tulloch*: I think you said that confidence was one of the reasons why London was the centre?—Yes.

507. Do you think that the position of the Central Bank, the independent position, free from any political influence, of the Bank of England, as the arbiter of credit has anything to do with that confidence?—I think it is the monetary system of this country in which, of course, the Bank of England plays a most important part, in that they have the power by raising or reducing Bank Rate to contract or expand credit, and the experience of many years which shows that that is unfailing, certainly has a great deal to do with the confidence.

508. *Mr. Brand*: I think it is the case, is it not, that there are at least $1,000,000,000 of dollar acceptances now in New York?—Yes.

509. I suppose you feel that that is a rather artificial growth?—No, I would not say an artificial growth, but whether it is permanent I cannot say.

510. They have not, in fact, a bill market such as we have?—No.

511. Apart from the money market would you say that London is still a greater capital market for the world than New York?—What do you mean by a capital market? That people come here to borrow?

512. To borrow long-dated loans?—There is no doubt that since the War New York has lent enormous sums of money to the rest of the world, and very much to the world's benefit, especially under the circumstances which have arisen in consequence of the War and the redistribution of money. Gold having gone to New York in such huge quantities, she can expand her credit and lend to other countries. During that time, up till lately, she lent enormous sums of money to Europe, and she might have been regarded rightly perhaps as being the biggest capital market available. I think there can be no question about that. We did our part as much as we could from time to time. As New York got filled up then our time came temporarily, until we could do no more, and then New York did more, and undoubtedly her aggregate lendings were larger than ours. Whether she could do that to-day I do not know.

513. Do you think that even then she sold back to this country a large part of the loans she made?—Yes, undoubtedly she did, but I think it was very largely a question of the rate, and she did not care to hold them.

514. *Professor Gregory*: Turning to the figures of your own bank, I notice that your bills discounted have fallen from a maximum of about 21 per cent. to last year's figure of about 10 per cent. Do you include Treasury Bills under your "Bills Discounted"?—Yes.

515. I suppose that drop reflects a fall in the volume of Treasury Bills?—I do not know; I cannot say off-hand.

516. Is it the experience of your bank that there is difficulty in obtaining an adequate supply of commercial bills of first-class character?—There has been. I think that the commercial bill has been on the increase until lately. At the present time I should not like to say; I do not quite know; but there was certainly at one time a great shortage of commercial bills. And then there was reported to be a steady increase; and I have no doubt we got our share.

517. *Mr. Tulloch*: Do you think that commerce is working generally more on overdrafts and less on bills than used to be the case?—I should think probably that is so.

518. *Chairman*: What is your view of that change?—Personally, I like to see bills.

519. And why?—Because it denotes a self-liquidating position.

520. *Mr. McKenna*: The change is not of recent date—there has been no great change in the last ten years, since the War?—I think that is right.

521. *Mr. Keynes*: Would it be possible to give us the aggregate of the overdraft limits that are marked on your customer's accounts?—Taking them as a whole?

522. Taking them as a whole.—When you say "overdraft" do you mean as distinguished from loan?

523. Yes.—Well, I suppose it is not impossible to work it out.

524. The figure of the extent to which overdraft limits are actually being utilised and the aggregate amount of the overdraft limits sanctioned, from which can be seen the amount which, under existing circumstances, could still be drawn upon. Would it not be possible to give those particulars?—No, I do not think so.

525. The bank must know them, must it not?—It would be very misleading.

526. Is not the power to draw on overdraft, from the point of view of the customer, practically as good a proposition as a current account balance. Supposing that the customer is entitled to overdraw up to £2,000, and in fact has a level account; he is in the same state so far as ability to draw is concerned as though he had a deposit on current account of £2,000, is he not?—Well, that might be so, except that his deposit can be used at any time so long as it is there; the overdraft arrangement might be cancelled; but I think if you were to receive a statement of the limits of overdrafts on current account it would be very misleading for you to base any calculation whatever upon it.

527. *Mr. McKenna*: Would it not be misleading for the reason that if all customers drew up to the limit of their overdrafts the additional money which they drew would go largely to pay off other existing overdrafts?—I have no doubt it would.

528. *Mr. Keynes*: But would not that be equally true if customers draw on their deposits? (*Mr. McKenna*): If so, then a deposit may become somebody else's deposit. (*Mr. Keynes*): And a used overdraft may become somebody else's diminished overdraft. (*Mr. McKenna*): That is the point. So that if you add the whole of the limits together you get a figure which could never be realised. (*Mr. Keynes*): Just as if you add all the deposits together you get a figure which could never be simultaneously withdrawn from the banks?—I am afraid if you ask for that information it would be very detrimental to the interests of the public at large, because the banker would say at once "Well, if I am to be regarded really seriously as granting all this accommodation at a minute's notice I must make a different arrangement with my customers." It would be a miserable state of affairs. They could not carry on business on those lines.

529. If you had never published the figures of your deposits would you say it would be very alarming to public confidence to start to do so now?—No, because the whole business of public banking is carried on on averages. It is not the totals. We never suppose that the whole of our current-deposit accounts can be drawn upon at one moment; we know by experience, just as an insurance company knows by experience, that the whole business is conducted upon averages.

530. You say that if anyone drew the conclusion that the aggregate amount of the overdraft limits could be employed at once they would be drawing a fallacious conclusion. Surely, if you assume one you are bound to assume the other. The position is analogous to that of your acceptances which are a potential liability and are therefore shown on both sides of your balance sheet?—Yes.

531. You might reply to me that if overdraft limits were published they would look like a liability of the bank, but one which was not likely to mature all at once, and therefore misleading?—When you publish your acceptances it is equivalent to the publication of actual liabilities under that head, and on the other side of the balance sheet you put a corresponding asset representing the definite undertaking of the customer to provide the necessary funds at maturity. That is right and proper. The public wish to know what liabilities you are incurring. With your current and deposit accounts you put out the total, but it is clear that the withdrawal of these deposits must be based on averages.

532. *Professor Gregory*: Supposing you were to publish the total volume of your contingent overdrafts—the amount not yet utilised—you would have on the other side of the balance sheet a counter liability of your customers, also contingent, in respect of the overdrafts which they had not used but might use at some time. The figure would then be analogous to the customers' liability on acceptances?—Would it be of any use to anybody?

533. *Mr. Keynes*: May I put the point I am driving at? A bank has deposits of customers, and transactions are carried out by transferring deposits from one customer to another. You could equally well have a banking system in which there were no deposits, or where the deposits were provided in a different way as, for instance, by persons having fixed accounts. You could carry on by transfer from one customer's overdraft account to another, increasing one and diminishing the other just as you now increase one and diminish the other. Formerly British banking was based on deposits. Now, perhaps, there is a swing away towards the other system in which what you do is not to transfer credits, but transfer debits. But without the statistics it is impossible to tell how important this is or how far reliance on overdrafts is taking the place of reliance on deposits; therefore, any conclusion one draws from the volume of deposits is vitiated by the fact that one has no statistics as to the proportion of overdrafts?—I think that the result of your plan would be that people would no longer have confidence at all, you could not carry on business.

534. Would it be possible to give us the figures in confidence so that we could judge of the importance of overdrafts?—No.

535. Would it be possible to tell us the amount of the overdrafts which have been employed as distinct from advances?—I do not think you could get a firm figure. The amount fluctuates from day to day, and month to month.

536. Does the average fluctuate very largely?—Obviously it must fluctuate.

537. *Professor Gregory*: Is it your experience that in recent years your customers not only prefer overdrafts to bills, but also prefer overdrafts to straight loans?—It differs very much in the various parts of the country.

538. *Chairman*: I wonder if it is not possible for you to give us some information as to the volume of overdraft business. It is not a question of disclosing any individual customer's account, but we have had evidence that there has been a change to some extent in the manner to which customers resort to the banks for credit, and that the overdraft has become more popular than the bill. I think the purpose of the question directed to you was to get some idea of the order of that change. Could you give us any statistical information which would indicate the extent to which there has been that change in character?—I do not think you could get that. I do not think we could give it.

539. We have no measure of the change although the fact of the change has been stated to us. The questions have been directed, I think, to see how far it is possible to measure that change?—Yes; I understand your point to be this. First of all Mr. Tulloch inquired whether it is more customary now in business for a manufacturer to do his business by an overdraft than by discounting bills.

540. *Mr. Keynes*: Or by a loan?—Or by a loan. I think the answer is, that you have no firm basis for a comparison. We could not give any informa-

tion which would help you to any conclusion as to the extent to which manufacturers have changed their practice. That they have changed their practice is quite certain, but it has been a change which has gone back many years—a gradual change—and there is nothing that you could pin down as being evidence that A and B, or a list of people, are to-day doing £X by way of overdraft instead of £X by way of bills. The information is not available.

541. *Professor Gregory*: But your branch managers, I suppose, could say roughly whether in a particular district 20 years ago the general practice was to finance industry by means of bills and is now to finance it by overdraft, or by means of loans?—They could say to you exactly what I have said, that there has been a change, but what the change amounts to in figures they could not tell you. The Chairman asked me whether we could give statistics. My answer is No, we could not.

542. *Mr. Keynes*: In your own internal balance sheets you have over the last 20 years separated the volume of loans from the volume of overdrafts?—I am asked this question, whether I could give figures which would indicate to what extent manufacturers prefer to work on overdraft instead of discounting bills. The answer is, I could not give it.

543. But you can give figures showing the amount of overdrafts for the last 20 years?—I do not think that would be of any advantage.

544. But you might give that figure?—I might. I could not say offhand now.

545. *Mr. McKenna*: Is it not a fact that the practice of lending on loan is the usual London practice?—Yes.

546. And the practice of lending on overdraft is the usual country practice?—Yes.

547. May I ask you whether it would not be entirely misleading to give a total of overdraft limits because a limit is intended to be used at that season of the year when there is the maximum demand in that particular industry?—I quite agree with that; you are perfectly right.

548. Is it not a normal practice, in judging whether an overdraft should be given or not and what the amount should be, that the trade should be of a nature which reduces the overdraft at a certain season of the year down to nothing or brings the account into credit?—Undoubtedly.

549. *Sir Thomas Allen*: Following on what Mr. McKenna said, I would like to put this point, because I think it is vital to an elucidation of what we are asking Mr. Goodenough. It is perfectly true, I think, that the country practice has been almost from time immemorial to lend on overdraft and the London practice to lend on loan. Now, I understand that the real complaint of industry in the country is that, whereas it could formerly go to the smaller bankers and get accommodation through the medium of overdraft, it is now very much restricted in getting facilities because of the amalgamation of the banks. (*Chairman*): I am glad you raise that question because the effect of amalgamation is a topic to which Mr. Goodenough is going to address himself in a few minutes. (*Sir Thomas Allen*): In that connection I would like this point to be made as clear as possible. What has been the effect of bank amalgamations upon loans to industry in the provinces? (*Chairman*): There is one question I would like to ask. Apart from statistics, what actual significance do you attach to the change of method by which credit is afforded? We have these three methods of bills, loans and overdraft. Why does the fashion change?—It is difficult to say, but I should think that one factor is that an overdraft is easier and that people are less disposed to give bills than they used to be.

550. We have been accustomed in Scotland to the system known as "cash credit." At one time it was very popular; but I think it is going out of fashion now. You had a credit up to a certain sum and you were allowed to operate within that sum?—It is the same as our limit of overdraft.

551. *Mr. Brand;* Is not one reason why the overdraft is preferred that interest is saved? A man uses it just on the days he wants it?—Yes, he takes just to the penny what he wants.

552. *Chairman*: It is adjustable to the day's requirements in the sense in which a bill for a fixed amount or a loan for a fixed amount is not adjustable. The interest on a loan goes on whether you use the money or not. The overdraft gives greater elasticity?—Yes.

553. Are you, as a banker, as pleased to have overdrafts as to be a lender for fixed loans? Which method do you favour?—I think you have to take it as it comes. In certain districts the overdraft is the custom.

554. Is it a matter to some extent of fashion or custom?—Of course, in some cases one would insist upon a loan instead of an overdraft, possibly in connection with private accounts if you can, because you have got more of a hold upon it; it is less possible gradually to draw, draw, draw upon a loan than upon an overdraft.

555. *Mr. Bevin*: In connection with this competition between the United States, say, and Great Britain to be the centre of the world's money market, what effect has this struggle had upon industry during the last 10 years?—It is very difficult to estimate; I cannot answer it.

556. *Mr. Newbold*: Do you think there really has been a struggle, a very definite struggle?—I think undoubtedly at one time New York bankers were expecting, possibly hoping—I will not go so far as to say struggling—but they were expecting and hoping that the centre would shift to New York; not unnaturally. But at the same time many Americans whom I met and who knew the value of experience and what the London market was, confessed that they did not think a permanent change was likely to take place. Of that there is no doubt. It is an aspiration for which one need not blame them, but they failed to realise that cheapness and experience are the two things that secure the market for this country.

557. *Mr. Bevin*: Have the banks in this country taken any artificial means, except cheapness, to check the American move?—What do you mean by "artificial"?

558. Well, special means?—I think that we have exercised all our intelligence to try and make the business come our way. I have nothing more to say than that.

559. *Mr. Newbold*: A number of the British banks, I suppose, are very active in New York, are they not?—No. They, of course, are very much interested in the New York position. We all have a large American connection. The American banks are glad to leave their money with us for two reasons. Firstly, because they must have balances over here to meet their country's requirements on this side, and, secondly, because from time to time they can employ monies here in a short market more profitably than they can themselves. That depends upon the swing between the two countries.

560. Have not the banks here recently been employing a very great deal of money on the Wall Street market?—I should not say the banks have done so, but I think it has been done; a great deal of money not only from here but all over the world has gone there attracted by the high rate they have been prepared to offer.

561. How far have the joint stock banks acquiesced in that or endeavoured to check it?—Speaking for my bank only, many months ago I gave definite instructions that money should not go to New York and that was carried out to the letter.

562. *Mr. Bevin*: In connection with the superior intelligence with which the market here is said to be operated in combating American efforts, I am anxious to try and find out to what extent in the

last 10 years this has reflected itself in unemployment in this country?—What has reflected itself?

563. The struggle between New York and London; the fluctuations?—I should not think that it has had any influence whatsoever on the question of unemployment. I do not think that it turns upon that at all.

564. Has it not had the effect of restricting credit in certain cases and at certain periods?—I should say certainly not.

565. *Mr. Brand*: I think this word "struggle" is misleading. Your opinion would be, would it not, that the struggle really comes down to the question of the comparative interest rates. Leaving out the comparative intelligence of the two centres, it is a question whether it is cheaper to do business in New York or in London?—That is the real governing factor—cheaper and more convenient, and the business better done.

566. And the influence of the London bankers on money rates in New York must be a negative influence?—I should say entirely.

567. *Sir Thomas Allen*: Do you think that with the movement of gold to the United States of America our position on this side is likely to be maintained from the point of view of intelligence and experience and cheap credit. Are the Americans not likely in the course of time to capture the situation financially as they have captured it industrially?—No, I do not think they are.

568. *Mr. Newbold*: I hope, Mr. Chairman, that in the course of Mr. Goodenough's evidence he will let us have some indication of the way in which certain joint stock banks are developing foreign markets other than New York, and particularly developing in the West Indies, Canada, South Africa, and so on. I think that is very important. (*Chairman*): The foreign business of the banks? (*Mr. Newbold*): Yes, particularly Empire business and business in markets that might be called the "British Economic Empire" as distinct from the "Political Empire." (*Chairman*): I think that might be useful. Continuing your general outline, Mr. Goodenough, do you regard the maintenance of the present monetary system, the system you have described, as being of national importance?—I do, I attach every importance to it.

569. That is a very general question of mine, but can you illustrate your meaning; how does it affect the general position, the balance of trade between this country and other countries?—I think there is no doubt that the liquidity which we preserve and which is one of the factors making this country the principal international centre enables us to earn a very large annual income. That and the other invisible receipts which we know of convert an adverse trade balance into a substantial surplus in our favour, and that surplus enables us to lend money, as we always have done in the past, to new countries, and to other countries for development. That, in turn, produces the markets which, to my mind, are the real cure for industrial depression and unemployment. The cure does not lie so much in increasing production as in the creation of markets. It is no use producing goods unless you can sell them.

570. *Mr. Bevin*: That is consumption?—Consumption. And by assisting in the development of other countries we not only balance our trade, but we gradually assume a creditor position, and we also create a market for our manufacturers.

571. *Chairman*: At that point I think Mr. Newbold's question comes in. What part, if any, have the banks played in the provision of money for other countries designed, as you suggest, for the purpose of enabling them to purchase our commodities?—It is played through the existence of London as the international centre and the handling of the trade of the world which comes to be financed in London, and produces for us a very large invisible receipt.

572. Which balances the trade accounts?—More than balances the accounts.

573. My question was rather what part, if any, have the banks taken in this process?—The banks take part through the liquidity which they preserve which enables them to handle this commercial instrument at a profit to themselves which all comes in to the good of the country as a whole.

574. Is it only in that indirect fashion that the banks have assisted the process?—I should say that that is a direct fashion as holding the resources of the country which they have mobilised in the manner which I have described with that particular object in view. When I say that particular object in view I do not mean to say that that has ever been written down in so many words as the object, but it is the result of our monetary system and our banking system.

575. Do the banks themselves make foreign loans?—They may occasionally, but rarely. Of course, we issue; we take part in issuing loans as they are placed in the London market. We do our part—a small share perhaps—we underwrite loans pending their being taken up by the public, and very often negotiate them at the request of our foreign customers.

576. You act as an agent?—We act as an agent, as a bank agent. It is not only of actual loans that I am speaking; it is also the whole credit system. It enables us to grant credit to other countries and that money is placed at their disposal. The credit is frequently spent here in the purchase of everything that you can think of—rails, engines and so forth. All that is done through the fact that we have a wonderful monetary system which brings us a large surplus income.

577. When you are employed as an agent to negotiate a loan to a foreign country, does your name appear in the transaction as recommending it?—Not recommending it. It very often appears on the prospectus.

578. And does not the fact that the name of one of the great British banks appears on the issue tend to commend it to investors?—Undoubtedly it implies that it is a reasonable proposition.

579. *Professor Gregory*: You do not yourself underwrite foreign loans, do you, as a joint stock bank?—We might underwrite a portion of an issue if a loan is brought out, not a very large amount.

580. May I ask you a question arising directly out of your last answer? Have you considered at all the possibility of British joint stock banks undertaking the issue of long-term loans for British industry, acting somewhat in the manner of the German banks?—Long-term loans?

581. Yes, public loans.—You mean to hold them?

582. Well, you would have to hold them until there was a prospect of their having some success, and you would then issue them to the public?—That, I think, would be very undesirable.

583. May I ask why?—Because it would bring us eventually into almost the control of an industry, a thing which we do not understand.

584. Do you not think it desirable that bankers, holding the power they do, should understand more about industry than possibly they have in the past?—We lend money to industry, we lend it freely in very large amounts.

585. That I am not disputing; I am merely asking whether in your own personal view an industrial policy on the part of the banks would not be desirable?—No, I think not.

586. May I ask why?—I think it would militate against the liquidity of the banks and that would in its turn militate against our large foreign earnings, and that in turn would militate against our balancing our imports and exports, and we should find ourselves very soon unable to pay our way.

587. *Mr. Keynes*: Would you regard your loans under the present system to the cotton industry, for example, as liquid?—No. When I say liquid I do not mean that the loans are liquid; some of them are, some are not. We have strained ourselves to help those industries, both the cotton and others.

588. If you lent to them, as the German banks do sometimes, on a bond which you could sell, would not that make them more liquid than if you lent to them on overdraft or loan?—I do not think you could sell them.

589. *Mr. Tulloch*: Is it not really this, that in all banking operations we must avoid a lockup?—Undoubtedly.

590. It may happen and unfortunately does happen—Mr. Keynes has referred to the cotton trade—that you have difficulty in certain cases in getting back money which you have lent. In your initial stages your loans must be always such as can be called in in a reasonable time. Is not that so?—That is so.

591. *Professor Gregory*: In the case of loans to industry, do you consider at all whether it is desirable to lend an aggregate amount to that industry, apart from the individual firm, or do you consider each application on its merits irrespective of the general economic situation?—Speaking generally, we take each application on its merits. We may at times take into consideration how much we have got out in any particular class of business, but I cannot say that that is the usual way of working.

592. Do you not think it would be desirable to consider the position of an industry as a whole irrespective of the standing of particular individuals?—In the interests of the industry as a whole?

593. Of the country.—No, I certainly do not think it would be in the interests of the industry.

594. *Mr. Brand*: You must consider the position of your own particular applicant. There is no other measure of his credit?—There is no other measure.

595. *Mr. Newbold*: But surely the banks must be concerned as to whether it is desirable to finance, say, an electric power development in Italy, or say, the coal trade in France. That may be excellent business for the bank, but it may be extremely bad business for the nation.—Speaking from recollection I do not think we have ever handled an overseas electrical proposition.

596. You have not?—No, or coal industry.

597. *Mr. Keynes*: You think that the relation of the banks to industry during the past 10 years is incapable of improvement?—I do not think the banks say that.

598. Do you think that it is incapable of improvement?—I think that industry has had from the banks the most ample consideration.

599. Yes, but is the system of relations of the banks to industry as shown during the last 10 years incapable of improvement in your opinion?—I should not say so.

600. It is incapable of improvement?—I do not say incapable of improvement. It is capable of improvement.

601. You could not mention any way in which it could possibly be improved?—I cannot think of any offhand without further consideration.

602. *Professor Gregory*: You do not think that it is desirable that joint stock banks as a whole should have a common point of view, for instance, towards the problems of the cotton industry?—No, I do not think so. I think it is far better to deal with each business on its own position, its own merits, and they get everything they can reasonably expect from the banks.

603. May not that mean, looking at the matter from the standpoint of the national interest as a whole, that a particular industry owing to the competitive relations between the different banks gets much more credit than it ought to get in view of its own immediate outlook?—I cannot answer that question. I do not know. I should not think so.

604. *Mr. Keynes*: You have no uneasy feeling looking back on your relations with the cotton industry during the last 10 years?—I have none.

605. *Mr. Tulloch*: Is it not a fact, in relation to the cotton trade and the question asked by Professor Gregory, that the banks have in recent years, certainly in recent months, come together and discussed the best way to meet the situation?—Yes. (*Professor Gregory*): I am delighted to hear it. I merely wanted to know. (*Mr. Tulloch*): I merely wanted to bring the fact out.

606. *Mr. Brand*: If an industry has come to you in the last two or three years showing that it is making profits and is in a position to repay any advance your bank is asked to make, have you in general been able to make such an advance?—I think invariably. I cannot feel that any reasonable and sound proposition is ever turned down.

607. And, therefore, the difficulty has been that a great many industrial concerns that have come to you have not been making a profit?—Of course, a great number have not been making profit.

608. *Mr. Bevin*: Supposing an industry is not making profit, that a depression such as we have had has overtaken it and it cannot show a profit, but it shows a need for complete reorganisation and help in the way of new capital for development on new lines, and the banks cannot see at the moment the necessary security, what is that industry to do to get its credit?—It is a very difficult question to answer, but I can say this, that within my own experience I have seen many particular businesses which have been in the greatest difficulty and in a state of the deepest depression, and that I have myself looked into their affairs and have helped them round until they have got straight by gradual and judicious help on sound and moderate lines.

609. *Mr. Newbold*: Have you not got any plans for dealing with the coal industry?—Well, that is a very large subject. (*Mr. Newbold*): We are concerned with that.

610. *Mr. McKenna*: Do you happen to remember the proportion of your advances to deposits at the present time?—I should say 52 per cent.

611. Do you remember whether that is a figure which has steadily risen, or steadily declined?—It has risen steadily in the last eight years.

612. Is the proportion now as high as you care to go?—I think one does not want it to go higher. It is a very high level. The figure of your bank is somewhat higher still?

613. Considerably higher.—And you probably feel as I do, that 52 per cent. is on the whole a very liberal proportion.

614. Would you be surprised to find that the average for all the banks to-day is something like 56 per cent?—I think it is somewhere about that.

615. Do you not think in your experience as a banker that that is a very high figure?—It is a very high figure.

616. Does not that rather indicate that the applications for advances have been rather in excess of the power of the banks to lend?—That may be the case. We have at the present time many very heavy advances which have been growing, particularly in connection with certain industries which are not in the state we should like to see them in. Take, for instance, the coal, the iron, the steel, the cotton industries, and so forth.

617. *Mr. Keynes*: You are influenced in making advances by the proportion of your existing advances to your assets?—One is always influenced by that, otherwise one would not be carrying on business on sound lines.

618. So although in the past, when advances were a lower proportion of deposits, you have not been in the position of refusing an application, you are likely to be in that position in the future?—I would not like to say that. What I say is that we have up till now granted every reasonable and sound advance. We have helped industry enormously in the last few years.

619. You do not in the least vary your standard in regard to acceding to applications for loans by reference to the amount of loanable funds you have?—You are bound to consider it.

620. So your standard as to whether you will grant a loan or not does vary from time to time?—Of course, fluctuation is not so rapid as that in the ratio of loans; the ratio of loans has been going slowly and steadily up.

621. *Chairman*: Will you reach a point where you cannot do any more?—That would depend very largely upon the ability of the country to expand credit.

622. *Mr. Keynes*: But if the Bank of England expanded credit so that your deposits were, say, £10,000,000 greater than they are now, would that cause you in any way to vary your attitude towards borrowers?—No, I do not think it would. We should carry on our business on what we considered to be sound lines, and, of course, we have always the power as credit increases to increase our loans.

623. It would make you more willing to increase your loans?—We should not have the same feeling that the margin is getting too narrow.

624. *Mr. Brand*: Do you think that the increase in the percentage of advances to deposits is due so much to a greater demand for credit as to the inability of some industries which have obtained credit to repay their liabilities?—I think it is very largely that. Not only the particular industries I have just mentioned, but all the Corporations have been borrowing large sums for housing, electrification, and a variety of things of that kind. They are borrowing large amounts. Mr. McKenna would probably confirm that. And also, of course, there has been a great deal of borrowing on private account in connection with the holding of securities, especially Government securities. There again, one has to be very careful. You do not want to force people to sell Government securities: it would produce a very bad effect. You often have to carry the position patiently for some time.

625. I would like to make clear the idea I have in my mind by one example. Take agriculture, which is a fairly simple industry. What is the difficulty with agriculture now—that it cannot get enough credit or that it cannot take credit because it cannot make profits?—I think that the credit given to farmers is as liberal as it should be—as it ever has been.

626. A farmer now, say, in East Anglia?—That, of course, is a special quarter, where land is almost unsaleable.

627. He does not take credit, not because he does not want it, but because he cannot use it?—He cannot use it.

628. *Sir Walter Raine*: Are the loans and overdrafts of Corporations getting such that it may be possible that you will have to restrict them?—I do not contemplate that. I merely mention the fact that they have been very large borrowers for some time. Then you must remember this, that they can only get relieved of those loans from the banks at periods when they can make issues, and then they have to take their turn in making issues and floating them to the public. It depends upon the ability of the public to invest, their readiness to invest, the facility with which the issue can be made, and a variety of things. Then I think one can say perfectly correctly that the terms which are charged by the banks, not only to Corporations, but to others, are so moderate that they do not hurry into public borrowing, when they may have to pay stiffer rates. I think there is no doubt about that.

629. Has the fact that Corporations are now allowed to use their own sinking funds had any effect on their loans from banks?—I have not experienced it. I could not answer that question. But certainly there has been a very great deal of borrowing on the part of Corporations.

630. You are satisfied that they are not up to the danger point yet, generally speaking?—We take each case on its own merits. Do you mean the danger point to them?

631. The danger point to both.—As regards the danger point to them, we take each case on its merits. We see what are the rates, and we can judge for ourselves.

632. *Mr. Tulloch*: Do you find now a far greater tendency on the part of Corporations and local bodies to go to their bankers rather than to the public?—Undoubtedly; they come to us and they take money for a time which increases up to a figure when it is reasonable for them to go to the Stock Exchange and make an issue. Big Corporations will not go to the Stock Exchange and make an issue for £100,000, or possibly even £200,000, in these days. They prefer to wait until they get to, say, £500,000 and then to make an issue. The effect of that is that the business with Corporations, County Councils, and other bodies of that kind, goes into larger figures than formerly.

633. But even so, do you not find that they go to their bank and ask the bank to lend them £100,000, rather than go to the public?—Now they do; and then they also repay the banks by borrowing money from insurance companies. Again, Corporations which have money to spare lend to other Corporations. The date when the lending Corporation has funds available does not always coincide precisely with the date when the borrowing Corporation wishes to spend the money, and it therefore has to come to us in the interval.

634. *Mr. Bevin*: Could we develop municipal banks more than we have, and tap the deposits of the manual and working classes more than we have, even in small savings? It would be a relief to the joint stock banks, and enable them to give more credit to industry?—No, I should not say so. We ourselves are getting steadily down towards the smaller depositors, and we are glad to have them.

635. Do you not think that if the system of municipal banks, such as there is in Birmingham, were extended the local appeal would probably encourage saving?—It might. It is a matter of sentiment I dare say.

636. And if it were successful it would relieve the joint stock banks and help them to finance industry?—Yes; of course the municipal bank has got to have its liquid resources.

637. *Chairman*: I would like to ask this question? I am thinking of the distribution of credit. If you lend a large amount of money to municipalities, and if you lend money abroad, do you not, *pro tanto*, diminish the amount of credit which you can make available for industry here? I am thinking of the rationing of credit among the various competitors for it.—We certainly have not restricted our loans to industry because of advances made elsewhere.

638. You do not find yourselves compelled to ration the various competitiors—municipal, foreign, and domestic?—By no means.

639. There is one aspect I would like to bring out in regard to money sent abroad. You suggest that certain moneys that are sent abroad have a resultant beneficial effect on our own trade. Are you thinking of financing, say, an electrical scheme abroad, where the plant will be purchased in this country?—I want to make this quite clear. It is not the banks who send money abroad. The investing public take up loans offered by foreign governments or foreign companies. That is a matter which is in the investment market.

640. I should have said, perhaps, those foreign issues which have been put forward, shall I say, with the commendation of your bank, that you anticipate by underwriting to some extent, or by negotiating the loans. May those loans have a resultant advantage to our own trade, even though the money is going out of our own country?—Undoubtedly, because it helps us to retain our position as a large creditor nation. As you recollect, owing to the War our American investments, which were of enormous amount—the figure I cannot state from recollection—went back to America, who bought

them and now hold them themselves. But before the War we used to hold £3,500,000,000, or some such amount of foreign investments in this country, which produced to us a very large revenue, and have continued to be the means of securing for our industries here a very large output. Take, for example the money that we lent to the Argentine for the construction of railways. If we had not lent that perhaps some other country might have, if they could have done it, but the result of our having done so was to build up the British and Argentine trade. The railways there were made almost entirely with steel rails and engines from this country. Take again India; precisely the same thing has happened. We have lent to India something approximating £350,000,000 to £400,000,000 sterling, quite apart from the money invested there by mercantile houses and others, but the Indian railways have in the main been built with British rails and British engines. I say "in the main" because they now have their own factories. In the same way Australia, New Zealand, South Africa, and Canada, have all been developed with British capital.

641. I think the anxiety that has been voiced in some quarters was that the attractiveness of the foreign business was militating against the facilities for advances at home?—I appreciate that, and there is no doubt there has been that impression very much in the minds of many people, but, as a matter of fact, that is ill-founded. It is the investment of money abroad by the investing public at home which produces interest and creates trade and business for our industries.

642. *Sir Walter Raine*: In other words, the money does not actually go out of the country?—It does not actually go out of the country.

643. *Mr. McKenna*: Is it not more correct to say that money, except in the form of gold, never leaves the country?—That is right.

644. *Mr. Frater Taylor*: There is another aspect of this position. Even in India as the result of the money we have sent from this country, the Indian railways have built and equipped machine shops complete, and they are doing all the work there It is not quite sufficient for our purpose to get interest on the money; what we want is work. It would not suit our purpose, for instance, to lend South Africa £2,000,000 to build steel works in which to make steel rails. If we lend to Egypt we pay for coolie labour in Egypt and what we get here is cement?—Take, for instance the motor trade. Consider what the motor trade is doing in the way of foreign export. I was talking the other day to Sir Herbert Austin, who told me he is one of the biggest exporters of motor cars in this country. The cars go abroad. How are they paid for? They are paid for either by this country granting credit in one way or another to the foreign purchaser, or by imports into Great Britain, the finance for which is often provided by the banks

645. *Mr. Newbold*: Surely, if the banks continue to give facilities to the automobile industry in a foreign country, it is not——?—Not a foreign country, to any country.

646. From this country to a foreign country for the reconstruction of the automobile industry. It is only going to be a very short time before that will affect our own industry?—I did not say we were giving facilities for the construction of automobiles in foreign countries.

647. But in some cases banks are giving it?—Are they? I cannot answer for that.

648. *Mr. Frater Taylor*: There is a position where an industry could give a bank satisfactory security without any question of profit arising. Take the case of a shipbuilder. It may be that he has the opportunity of building and selling ships abroad. He might take a mortgage on those ships the payment for which is spread over five years with a small initial payment; would your bank be prepared to discount bills of that kind, or would you consider those as being securities of too long a term for your purposes?—What period?

649. Five years?—We have discounted many renewable bills. Of course, those bills are not drawn for five years. They are drawn under an agreement as renewable bills, and not only the banks but the market take renewable bills for shipbuilding spread over a period of years. I think that is correct, Mr. McKenna?—(*Mr. McKenna*): Yes.

650. *Mr. Tulloch*: There is a great deal of shipbuilding finance done on the basis of renewable bills, is there not?—Yes, quite commonly.

651. *Mr. Bevin*: Is there any consideration when a loan is applied for, say, to build a steel works abroad or a cotton factory or something of that kind, as to the effect of that loan on home industries, or is it regarded purely from the point of view of security?—I have never known in my personal experience of money advanced by a bank for the purpose of building a cotton factory or a steel works in a foreign country specifically. What might happen would be this, that they would raise their own funds out there for putting up the factory and then they might come to our manufacturers here and say, "We want to set up plant." Would you suggest that we should refuse them?

652. I am just asking you how you approach that problem?—We are frequently asked by manufacturers here to finance their contracts for supplying plant for a factory abroad or works in connection with a bridge or some other equipment abroad, which means manufactured steel going out from this country to put up there, or gates where there is a big dam as for instance in Egypt, or a rail contract where the rails are to be delivered abroad, and engines and a variety of things. We do that freely.

653. You do not grant loans for the definite establishment of works abroad?—I do not know that I have ever had a proposal of that kind, but frequently the banks assist in setting up a proportion of the plant because that is what this country can supply.

654. *Mr. Newbold*: It is the same thing?—Would you say "no" to that?

655. I am not prepared to answer whether I should recommend you to do that, but, surely one has to consider whether if you secure work for, say, this year and next year, you are going thereby to cut off work, in, say, 5 or 10 years?—It is not for us to judge of that. What would be the complaint against the banks supposing a big manufacturer came with a large contract in his hand and said: "Here is a chance for continuous work for 3, 4 or 5 years in providing this, that and the other. The material is going out from here and it is going to help us to equip certain works"? Surely we have got to do that?

656. As you are organised to-day, yes, but I think it is bad national policy?—I think our manufacturers here would have strong grounds for complaint if we were to refuse——

657. Possibly?—And if they could not get the opportunity of executing these vast and profitable orders.

658. But surely you ought to have a national policy?—That is not for the banks to say.

659. *Mr. Keynes*: May I ask one question on statistics? Would the amount of cash in hand and with the Bank of England, as published in the monthly statement of the clearing banks, be an accurate indication of the true monthly average?—It is a weekly average.

660. Is that weekly average a true indication of the daily average?—It is not worked out on daily figures.

661. If it were worked out on daily figures would it make no difference?—I should not think so.

662. *Mr. McKenna*: Would you object to giving the daily average in the published statistics instead of the weekly average?—No.

663. *Mr. Keynes*: The allegation is constantly made in the financial press that the bankers call from the market on the day of the week in which they make up their accounts. Is that correct?—They may do so to a slight extent.

664. They are more likely to call from the market on the day that they make up their accounts than on any other day?—They may to some extent.

665. Does that serve any useful purpose?—No. It shows the liquidity of the position. You do not want the market to get into a position that they are never going to be called upon to pay.

666. Do the banks choose different days of the week to do this?—Speaking generally, they do. We take the day that suits us.

667. If you call on different days it is not an indication of the liquidity of the market, is it?—Well, I think it is to some extent.

668. *Mr. McKenna*: If it be so, you, personally, would have no objection to the banks giving in their monthly statements as regards cash a daily average?—A daily average; I should not object.

669. *Sir Thomas Allen*: On this point of credit to industry at home, I do not think we have got quite the information we would like. Mr. Goodenough has already told us that the banks have helped industry enormously, and that the power of the banks has been strained in this particular direction. Could he indicate to us whether the banks have tested to the utmost limits any method of expanding credit in order that industry might be better helped in the times in which we find ourselves and, if so, in what direction? We want, if we can, to help industry at home as much as possible, quite distinctly from helping industry abroad by way of loans. And when we come more particularly, say, to our manufactured products, take the Sheffield steel manufacturing industry, for example, where it is an admitted fact that in many of those manufacturing industries something like 70 per cent. of the value of the product consists of wages alone, those commodities could be sold effectively abroad on long terms of credit. But the parlous position in which the manufacturer finds himself is this, that he cannot pay his wages on Friday night, say, to the extent of 70 per cent. of the value of his product and give extended credit over 9 months, 18 months or two years to countries abroad which are ready to receive those products on long terms of credit. Now, if the banks cannot help specifically or to the full extent in this direction, would Mr. Goodenough suggest to us some other form whereby credit could be expanded in order to help our industries in that particular direction, because it is an undoubted fact that credit in this particular direction is not only restricted, but in many instances is not available through the banks?—I should not say myself that credit is not available through the banks because, as I have already stated, my own experience and my belief as regards what other banks do is that we have not laid it down that we have got to the limit of our powers of lending to industry. I think that is quite certain. As regards the need of accommodation for finding money for wages, there is no doubt whatever that if the business is sound and good the industry should be able to get the amount of temporary accommodation which it requires from the banks, and as regards the long term contract which I understand presents some difficulty, you know that there is the Export Credits Guarantee Department who are willing, if they find the business sound, to endorse the bill.

670. I am quite aware of what has been done in that particular direction in the way of overseas trade, but what industry says is, "If this country can receive, as it did last year, 100 millions of money as the result of the grant of credit for development overseas, could not some system be arranged through the banks and otherwise whereby similar facilities might be exercised at home for the benefit of home industries?" In other words, is it any more reliable to put trust in the development of industry abroad than to put trust in our industries at home?—I do not think that the two can really be put in competition with one another in that respect. My point is this, that for the past generation it has been the employment and the reinvestment of the earnings, the financial earnings, gained through our position in foreign trade that has produced a very large proportion of the market for our home industries. That has been going on to an increasing degree. It has had a severe setback owing to the War, and possibly to some extent to the disinclination of people in this country now to emigrate and to start business on their own account. As those two difficulties are gradually overcome, I feel certain that the same principle should be applied and the same result would be obtained, provided always that our country is able to work and produce in competition with other countries, which, of course, is essential.

671. *Mr. Keynes*: Do you think that the total volume of credit available has any influence on the activity of business in this country?—Do you mean internal?

672. Internal?—I think undoubtedly it may have, but frequently it results in a boom which has its consequences. We saw that, of course, in the immediate post-War period when for a time the credit of this country was inflated, and the consequence was a very considerable boom in production. Everything was hoisted up to far too high a level, and the eventual result was a disastrous breakdown and a great deal of money was lost.

673. Would you like to see any increase in the total quantity of credit at the present time if it were compatible with our not losing gold?—In this country?

674. In this country.—If it were to lead to an expansion of industry on terms which would enable it to compete with other countries, obviously it would be an extremely good thing. We could sell then in markets abroad as well as our own.

675. Would you expect it to lead to any increase in the volume of industry?—It might easily do so. It could only do so with safety provided we are able to sell. It is no good manufacturing if you cannot sell.

676. *Mr. Brand*: Sell abroad?—Either abroad or at home. We must sell abroad, because otherwise our adverse trade balance kills us.

677. *Mr. Keynes*: In what way would the increased volume of credit help business?—If it is due to cheap money industry gets the advantage of that.

678. You mean that if Bank Rate is reduced your customers will want to borrow more from you?—No, I do not say that. There might be more credit available; they might come to us for more loans; it might produce a spurt in trade.

679. But as you never refuse a customer a loan, the only change in the situation would be in the rate?—He would certainly get his money at a cheaper rate.

680. Would that have the effect that many more customers would come to borrow?—Only if they had a market for their goods.

681. Now that Bank Rate has been reduced to 5 per cent., as compared with 6½ per cent. how will that affect the eagerness of your customers to borrow?—I very much doubt unless they get orders whether they will.

682. *Mr. Bevin*: What influence has that reduction of Bank Rate had on the cost of production?—Very little.

683. *Mr. Keynes*: You say your customers are never refused a loan, and it would not materially increase their eagerness to borrow if you reduced the rate you charge by 1½ per cent.?—I think the first incentive to greater activity in trade is greater purchasing power abroad and, of course, in this country too.

684. *Mr. Bevin*: What is the cumulative effect of a rise in Bank Rate, taking industry as a whole?—In what direction do you mean?

685. Increased cost.—Well, of course, for those who have to borrow it represents the difference between 5 per cent. to-day and 6½ per cent. as it was.

686. Yes, but what would be the effect of that on the costs level?—I cannot tell you. I am not an industrialist.

687. I am rather keen on following this. I have heard it said that a half per cent. rise in the Bank Rate represents anything from £9,000,000 to £10,000,000 on the total cost of our products?—I cannot say. I do not know.

688. As a banker do you not think that ought to be studied?—I do not know whether that is correct.

689. For instance, if £10,000,000 were put on the wage bill at once it would cause rather an outcry, would it not?—Yes, but would it have that effect? (*Mr. Bevin*): Well, I am anxious to get the correct statistics. I do not know whether it is possible to find them in this inquiry. I thought probably the bankers could tell us.

690. *Mr. McKenna*: The total advances amount to about £1,000,000,000, do they not?—Yes.

691. And the total held upon bills amounts to many hundreds of millions?—Yes.

692. The price paid for the advances or for the bills in most cases varies with the Bank Rate?—Yes.

693. Therefore, if there is a fall in the Bank Rate of one per cent., there would be an immediate decline in the interest charged on the £1,000,000,000 advances and on the hundreds of millions of bills?—Yes, but how much of that affects industry one cannot tell. The £1,000,000,000 is not all in industry. It is in a variety of things.

694. I cannot speak for any other bank but my own, of course. I made a calculation last year as to the amount of the accommodation given to industry, and, if I remember aright, about 80 or 90 per cent. was in industry?—Of your total?

695. Of my total.—Would you include agriculture in "industry"?

696. Agriculture, iron, steel, cotton, wool, textiles.—That might perhaps be the case with ourselves, but I cannot say for certain.

697. Therefore, would not the fall in Bank Rate bring that degree of relief to industry?—Yes.

698. *Professor Gregory*: Have you noticed the fact that when Bank Rate is lowered there is a tendency for an increase of applications to come into your branches fairly rapidly?—No; I could not say that.

699. *Mr. Keynes*: You have not noticed any correlation whatever between Bank Rate and the eagerness of borrowers?—I could not answer that; I could not say. Of course, there is great relief; there is no doubt about that.

700. If there was an increased volume of employment in this country more currency notes would be drawn out of your branches for payment of wages?—Yes.

701. That would reduce the level of your reserves?—Yes.

702. What would be the next consequence of that?—You would have to reduce investments.

703. How would you do that?—By selling securities.

704. *Mr. Frater Taylor*: Have you any foreign investments?—No.

705. *Mr. Keynes*: If you sell those investments, can you sell them to anybody except the customers of your bank or other banks?—No; or to the market.

706. They are also customers, are they not?—They may or may not be.

707. Is it possible to restore or preserve the proportion of the reserves of the banks as a whole?—Naturally, if your loans increase, something must be diminished if the cash ratio is to be preserved, and this can be done by selling securities and thus reducing deposits.

708. So the effect of an increase in employment would be that the banks would have to take some steps to reduce their investments or bills?—The probability is that if the loan is granted it creates a credit on the other side, and additional resources are created with the banks in that way, subject, of course, to there being sufficient cash available to enable the bank to keep its proper proportions of cash.

709. In that case you would be compelled to increase your cash?—The power to increase the cash proportions would depend partly upon the ability of the Bank of England to expand the basis of credit.

710. Unless the Bank of England expanded the basis of credit, it would not be possible to employ more men?—Theoretically no, unless you sell investments.

711. Why do you add the word "theoretically"?—Because I am not quite sure whether it acts exactly in that way.

712. *Professor Gregory*: Do you regard the ratio of cash to liabilities as elastic, or are you more or less pinned down?—It must be to a certain extent elastic, but your proportion of cash should not fall below the point which experience tells is one of reasonable safety, for the reasons which I have already stated at the beginning of my examination.

713. Are you satisfied that the present ratio, which is rather lower than the ratio before the War, is getting towards the point when it is dangerously low?—I think it is quite low enough.

714. *Mr. McKenna*: In the event of the Bank of England increasing credit to the extent, say, of £1,000,000 by the purchase of bills, the morning after they had done so that £1,000,000 would come to the banks as additional cash?—Yes; their balances with the Bank of England would be increased by that amount.

715. Taking the ordinary average, your own bank would get £200,000 of that £1,000,000?—Yes, possibly.

716. Is it your practice the first thing in the morning to take a view of your cash position?—Invariably.

717. You would find then on the morning after the increase of credit by the Bank that you had got £200,000 more than your ordinary cash ratio?—That might be so.

718. You would desire to use that £200,000?—Yes, perhaps.

719. Would you, in the first instance, desiring to use it at once, use it either by buying bills in the market and/or by lending in the market?—One or the other.

720. Is it not the fact that when you buy bills in the market a large proportion of those bills are foreign bills, in the sense that they are of foreign origin. I don't mean domiciled in London?—Technically a domiciled bill is something different from that of which you are speaking.

721. Well, they are London bills, but are to a large extent financing foreign trade?—They are principally bills drawn on London representing imports into this country or bills drawn on London representing imports and exports between other countries for which settlement takes place in London. The internal bill is a diminishing quantity.

722. A diminishing quantity?—Yes, the accommodation required being provided in other ways, principally by overdraft.

723. Consequently in financing foreign bills there is an immediate impact upon our exchange?—Yes.

724. The money that you advance will be used normally by cheques in London, and will be cleared the same day?—Yes.

725. Consequently that £200,000 will come back to you the next morning. The whole £1,000,000 will come back to the banks as a whole, and you will get your share of that, £200,000?—Yes.

726. Would you be more likely to lend to British trade if you found on successive days that you had got more than your ordinary cash ratio, or would you use that £200,000 the next day exclusively in buying bills in the market?—It does not work in that way exactly. Obviously for the moment you would use that money in liquid form. Banks do not seek for loans; the borrowers come to the banks. A banker does not write down in his notebook "I have to-day received £200,000. Now I am going to lend another £200,000 to industry." Borrowers come to the banks, and if a bank finds that it is in a position to maintain its cash balance and its other liquid resources, then the result may be that the bank has additional funds which it can lend in some less liquid fashion, which might take the form of a loan, supposing the bank is asked for it. Until asked for it the bank would employ its surplus funds in the money market or in buying bills.

727. The first use of liquid credit by a bank is undoubtedly to buy bills in the market, but as that £200,000 comes back to the bank day after day, until your cash proportion is realised, you do lend a portion of that to British trade as applications come up to you?—Yes, if you are asked. Obviously your ability to lend is increased, and although you do not measure it up day by day you know your position is comfortable.

728. You know your position is comfortable, and you are able to lend more in trade. I think you will agree that if you have a normal cash ratio of 10 per cent. your cash ratio will not be brought down to 10 per cent. until that £200,000 has come back to you in 10 successive days?—That may be so.

729. And throughout that period you would be feeling more ready to listen to applications for loans for British trade?—I do not say more ready, because you are always ready to listen, but obviously your ability to grant them is increased.

730. Very well, we will put it that way. I will ask you this: As the result of an increase of credit the first effect is to cause an impact upon the British exchange? (*Mr. Brand*): Might I ask Mr. McKenna how? (*Mr. McKenna*): I will put it to Mr. Goodenough in the form of a question. When you lend to the market, who themselves buy bank bills which are largely bills on foreign account, those bills, when discounted, give the foreigner an immediate power to draw money from London. Now, he can only draw money from London if the exchange is at a low level in the form of gold? (*Mr. Brand*): I do not follow that. (*Witness*): I am not following that.

731. *Mr. McKenna*: What is the point that is not clear?—When you say it gives the foreigner ability to draw money.

732. *Mr. Keynes*: There is the tendency, rather than the actuality. (*Mr. Brand*): I follow this, that it probably tends to reduce the bill rate in this country, and therefore attracts more borrowers from abroad. All it means is that there is £200,000 more advanced to purchase bills than is available in the market, but the foreigner has nothing to do with those bills when they have once been accepted until their due date. (*Mr. McKenna*): Oh! Yes. The bills are drawn on foreign account. (*Mr. Brand*): Yes, but at that moment the foreigner is——— (*Witness*): He is out of the picture. (*Mr. Brand*): He is out of the picture. But he is very much concerned when he has to find the money to repay those bills. (*Mr. McKenna*): That particular bill is not affected, but the fact that the bill rate is lowered attracts more. (*Mr. Brand*): That is the point. (*Mr. McKenna*): I beg your pardon. I did not make that clear. And the tendency in consequence of the lowering of the bill rate, owing to the increase of credit by the Bank of England, is to cause an impact on our exchange. That is the first tendency; that would be common ground, would it not? I am asking you whether, in the course of the 10 days during which you are equalising your cash ratio, you would not feel more comfortable in lending money to British industry at home?—Yes, of course; it is quite obvious that if the applications are received you are more able to entertain them when you have £200,000 more available than if you had not, but as I say, we do not go out seeking to make loans. We wait until the loans are asked for, and then we deal with each case on its merits.

733. *Mr. McKenna*: I think it is common ground between us that the first effect of an increase of credit by the Bank of England will be to encourage foreign borrowing by reducing the bill rate?—Well, it might; yes. What do you mean by "foreign borrowing"?

734. I mean the discounting of bills in the London market on foreign account?—That is not actually borrowing. You mean foreign trade operations?

735. Yes; foreign trade operations, or short term borrowing by foreigners?—It makes this market more attractive for the sale of bills.

736. And therefore the bills being in the main of foreign origin, foreign short term borrowing——?—Well, I should not have regarded it as borrowing.

737. *Mr. Brand*: You mean the opening of credits? (*Mr. McKenna*): Well, that is borrowing. I am not particular as to the language used, as long as the meaning is clear. I would ask you whether, if in consequence of the foreign short term borrowing due to an increase of credit by the Bank of England, gold does leave this country, the effect upon opinion here would be that it would be thought desirable to restrict the total of credit?—Obviously it tightens up credit.

738. *Mr. McKenna*: And the banks would then find that they had lent money to British trade in the form of an advance or a loan which they could not get back?—Well, whether they could get it back or not depends upon circumstances.

739. They could not recall a loan immediately they had made it?—Yes, in theory, they could; clearly if your resources are reduced you have to look to your assets, and to consider how to meet the deficiency.

740. But the particular assets which you would find most difficult to reduce would be your advances to trade?—Yes.

741. *Chairman*: The point of Mr. McKenna's question, I think, is that a temporary expansion of credit may result in the restriction of trade. It moves in a circle. (*Mr. McKenna*): Under our present system an expansion in credit is availed of immediately for short term lending, and then it may subsequently find its way into industry. The banks get the amount they lend back every day. A portion every day for the 10 days still goes into the market for short term borrowing until a point is perhaps reached when gold leaves the country. Then the additional credit is withdrawn. (*Mr. Lubbock*): May I ask one question about this? You were telling us, Mr. Goodenough, that the total accommodation that you grant is related to your cash?—Yes.

742. *Mr. Lubbock*: You said just now, I think, and Mr. McKenna agreed with you, that the banks' proportion of cash was getting as low as they would wish to see it?—Yes.

743. It is rather lower than it was some time ago?—Yes.

744. Mr. McKenna has assumed that the Bank of England creates £1,000,000 fresh credit by buying Treasury Bills in the market; and that operation, as he puts it, may result in an immediate impact on the exchanges, because that £1,000,000 is at once used in the short loan market. If it stayed in the short loan market without any impact on the exchanges it would be available for use in industry, but it may leave the country in the form of gold before it reaches industry. If the Bank of England were to create fresh credit of £1,000,000 would it occur to any of the joint stock banks to say, "We have got £200,000 more cash. Now that has improved our cash proportion. Let us keep it unlent until industry requires it"?—No; certainly not.

One does not work so precisely as that. You would simply find that you had got £200,000 more, which you would either immediately employ in strengthening your cash, or you would employ it in the short term market, and, of course, if your loan applications were to increase, obviously you could meet them more readily and without disturbing your proportions than if you had not got it.

745. You wait until a loan application comes to you; you do not go and seek for it? There might have been a borrower who would have come along in a couple of months' time, and who has not come along, and in the meantime the impact on the exchanges has been so strong that the cash has already left the country?—Yes.

746. *Mr. McKenna*: Is the reason that you use the money in the market directly you get it that unless you so use that money you cannot get interest upon it?—Yes. Of course, if you feel that your cash reserves are a little bit on the low side you keep it in cash. If you find your short term loans are satisfactory you use it in bills which are eventually turned into cash, or use it in longer term loans, or in such other way as may seem most desirable.

747. We are considering, I understand, rather the existing system—whether the system under which we work is a good one or not—and what I am endeavouring to get at is the limitations of the system. Do you not as a bank pay for this £200,000 additional deposit that you have got?—How do you mean, pay for it?

748. You have to pay interest on your deposit money?—The banks allow interest on their deposit accounts.

749. Therefore if you kept it idle and did not use it you would be paying for the deposit and getting nothing in return?—Certainly.

750. Is it not consequently a fact that you feel yourselves forced to use it?—It would be good business to use it.

751. And I take it the buying of bills in the market, or lending in the market, offer you the only available means of utilising that money?—In all probability they are.

752. *Mr. Brand*: Do you think that an increase in the cash in the money market would have an immediate effect upon the amount of credits sought here by foreign countries for the financing of trade. The terms would have to be compared with the terms they could get in other centres?—Entirely. They do not look round and say, "There is money here and not there." They go round and get the best terms they can.

753. It would be a very gradual process so far as three months' credit is concerned for new credits to be opened. It would not be immediate?—No.

754. *Mr. Lubbock*: I suppose one could imagine a system whereby if foreign exchanges were satisfactory to this country and industry was prospering and the banks were lending money and their cash proportion got down below 9 per cent., the Bank of England might say that clearly more credit could be created so as to bring the banks' ratio up to 9 per cent., and, if so, the banks would keep that and not put it out on the short term market?—I think they should always aim at keeping a due proportion of cash.

755. *Mr. Keynes*: Is it your view that there is nothing that the Bank of England or the joint stock banks could do which would have the effect of increasing the volume of advances?—On the contrary, I think that when the Bank of England can draw gold into this country it would give a broader basis for credit, and would in itself enable the banks to lend more freely.

756. If at present the banks have sufficient ability to meet all requirements, how can that increase the amount of their lending?—Only if more money is wanted.

757. And you have told us that more money is not wanted?—I am speaking of to-day, but not of to-morrow. One cannot tell from day to day.

758. I see, you only mean for a very short period?—No, I mean that the position to-day and to-morrow may be totally different. To-morrow there might spring up a demand in industry which we should wish to be in a position to meet. (*Mr. Keynes*): Which you are not in a position to meet now, but which you would be in a position to meet.

759. *Mr. Brand*: Mr. McKenna argues that more money in the market leads to a lower discount rate, and, therefore, attracts foreign borrowing here in the way of open credits. I suppose foreign borrowing is attracted not only by a low discount rate, but by a low acceptance commission?—Undoubtedly.

760. The joint stock banks charge a low acceptance commission?—Yes. The rates have been considerably reduced in the last two or three years. They have been almost halved.

761. What is the rate now?—Half per cent. per annum, but only for the highest class of acceptances. It was at one time 1 per cent. per annum or more.

762. And that itself is a very low rate which leads to foreign borrowing here on favourable terms to the borrower?—Yes, it leads to larger acceptances and settlements in London as compared with other centres where rates are higher.

763. *Professor Gregory*: Might I just go back to your statement that you have not found it necessary to refuse any applications for loans? I take it that what you mean is, that the volume of applications depends partly on the price that you are charging at a particular moment?—I have no doubt it must have some effect upon it.

764. But has it been your experience that when, for instance, Bank Rate has gone down, a larger volume of applications has come forward?—From what particular quarter?

765. From industry.—I think that it is less the case with industry than it is with other pursuits, for example, for private purposes; and those who are borrowing against securities for some purposes unknown, which may be perfectly justifiable, will naturally borrow more readily if they can get their money on a lower Bank Rate possibly than they would on a higher.

766. In other words, the low Bank Rate and the varying overdraft and loan charges that you make, are in fact causing industry to accommodate itself to the volume of credit that you can lend?—Will you say that again, please?

767. You find it always possible to lend the amount demanded by industry and commerce partly because at different rate levels industry and commerce ask for different amounts?—I do not understand.

768. You said in answer to Mr. Keynes that you had never found it necessary to refuse applications for advances. I think you said that?—Well, subject to their merits, of course.

769. Subject to their merits. We will not go into that. Is not that partly a consequence of the fact that at different Bank Rate levels different amounts are asked from you?—I could not say that that is so exactly. I could not answer it in that way. Obviously, if the rate is high people will be inclined to do with only the minimum amount; if the rate is low they are inclined, let us say, to be more extravagant.

770. In other words, the level of Bank Rate and overdraft rates and so on does affect the amount of applications made to you?—It might do so, but a great deal more depends upon the general activity of business.

771. *Mr. Lubbock*: You said just now that your proportion of loans was as high as you would wish to see it. You have also alluded to the amounts which you are now lending to Corporations. I suppose you might argue that if ever you were prevented from lending to industry owing to the high proportion of your advances it was due to the action

of persons who ought to have gone to the public and made a public issue?—Yes, I think that would be a fair conclusion. Because obviously if they would go and fund their debt there would be more room for other borrowers.

772. *Chairman*: Might I ask you a question in this form? You are conversant with these various transactions in your bank. Have you ever felt yourself disabled by the existing conditions under which you work from making advances to industry which otherwise you would have liked to make? Have you ever felt yourself embarrassed or disabled from doing what you would like to do by defects in the system under which you work?—I think it might frequently happen that an application might be made for a loan unreasonably large, or for an unreasonable length of time, and we should then say, "We suggest that you should arrange your application differently."

773. Yes, but that is a defect in the application which is made to you; it is an unsatisfactory application. I was asking whether you found that your existing system hampered you in any way in any form of activity that you would otherwise like to engage in?—Not in anything that we consider a sound and reasonable application.

774. *Sir Thomas Allen*: If it be concluded that an expansion of credit is necessary in the interests of industry, and by expansion of credit cheap money is available to foreign borrowers on the British market, is there any insuperable difficulty in the way of differentiating in regard to our home industry in that respect; that is to say, if we expand credit could we prevent the foreign borrower taking advantage of the situation to the prejudice of the British industrialist?—I should like you to realise that, speaking broadly, banks do not make loans to foreign borrowers; that is not their business at all.

775. I quite appreciate that.—What they do is to employ their liquid resources in the short term market which operates in bills representing actual foreign trade. Mr. McKenna puts it in the form of a short term loan abroad. I think that that term, if he will allow me to say so, is a little bit misleading. It is in buying bills representing trade transactions, either between this country and other countries or sometimes between two foreign countries which are financed here at a profit to ourselves. That is the only way in which we make so-called foreign loans.

776. *Mr. Brand*: And which the foreigner must repay in three months' time?—Yes, which the foreigner must repay in three months' time.

777. *Mr. Newbold*: Is it possible in any way to arrive at the ratio of bills, at one end of which there is the British national, and bills, at both ends of which there is a foreign national? (*Chairman*): What do you say to that, Mr. Goodenough—bills to which there is one British party: How do they compare in number with those to which there is no British party, but which are merely handled in this country for the purpose of acceptance?—I should say that bills with two foreign names are comparatively small in volume compared with bills with one or more British names.

778. *Chairman*: I thought that we were able, by our monetary system, to attract a good deal of that class of business?—Those bills with two foreign names upon them only come here when the rate is a low one.

779. I am going to make a proposal to you, Mr. Goodenough. Gentlemen, Mr. Goodenough handed me a short memorandum before he went into the witness chair. It touches upon a number of topics which he has not had time to cover to-day. If you please, Mr. Goodenough, I think your memorandum might be circulated to my colleagues for their consideration. Have you any objection?—None at all. I have brought it here this evening; as a matter of fact, it has only just been completed, I prepared it under considerable pressure, but I thought it might be perhaps useful.

780. The only other thing I would like to ask you about is this. It has been suggested that the concentration of the banking business in this country, so largely in the hands of the Big Five, has been disadvantageous to industry in the matter of granting facilities. I think that particularly it has been suggested that this has to some extent done away with the personal contact between banker and customer, when the banker knew his customer and was prepared to give him credit on his knowledge of the man's own character, and that it is more difficult to get advances from a big corporation which has not the same personal touch. I would like to hear from you whether you think that amalgamations have had any such effects and also what has been their effect on competition for business?—As regards the amalgamations I should like to explain, if I may very briefly, that the amalgamations took place largely with the view of aggregating resources and averaging risks through operating in a wider field. Speaking generally, the amalgamations were the absorption of banks occupying different areas, not—except in a few cases—getting a bank operating in the same area. The result has been that the banks to-day, the five big banks, are spread all over the country, and in that way they are able, as I say, to aggregate resources and average risks which, of course, is one of the factors that enables them to work upon a smaller cash basis than they used to do previously.

781. Has that increased credit?—And also increase credit through the risks being more widely distributed and spread over this wider area. It has also led, I have no doubt, to development of the country, and, further, it has led to a great opening of new branches by the greater banks so amalgamated. They have gone out into other parts in order to complete their system, and it has been found necessary with the development of modern business to be in the position, as it were, of each end of a chain, by having branches in all parts you can meet your customer at each end and so keep up a continuous chain of connection between the banker and the customer. If anything it has increased the competition between the banks. The competition is very great indeed, and there is no arrangement or working between them in the matter of rates except as regards certain deposit rates. That exception is an advantage because it prevents the banks from competing too much for deposits and undertaking too great risks, but except for that there is no agreement or arrangement at all as to rates. The banks are in very close competition with each other. I regard the amalgamations that have taken place as being distinctly for the benefit of the country. Not only that, but I think everybody will agree that the War finance could not have been carried out on the enormous scale that was required without the big banks. Equally the post-War finance and the handling of the large floating debt could not be carried out as successfully as it has been without the bigger banking corporations as they exist to-day.

782. Would it be any test of the extent to which personal contact is maintained to look at the amount of your unsecured advances? I take it that an unsecured advance indicates an advance made to a man on his own character?—Undoubtedly that has a bearing. I think also that it should be understood that the general intelligence, ability and trustworthiness of bank staffs is very much higher to-day than it used to be. I have no doubt whatever of that. They are very keen on their business and are improving in level the whole time.

783. Has there been any diminution in the extent of your unsecured overdrafts or credits?—I am afraid I cannot answer that question.

784. *Sir Walter Raine*: Have you any idea of the percentage?—No, I am afraid I cannot answer that question. I should think that in all probability the tendency has been towards a reduction of unsecured advances because people are less at anchor than they

used to be; they are more mobile and you may not know so much about them. Unsecured advances are made in very large amounts both to individual persons and in industrial and commercial concerns.

785. *Mr. Tulloch*: It has been stated over and over again that owing to the amalgamation of banks the small man does not receive the same attention and has difficulty in getting facilities for his small business. What do you say to that?—I should say that is not correct.

786. *Professor Gregory*: Would you be in a position to supply us with figures as to the distribution of your loans between large customers and small?—(*Witness*): No; not individually, but in the aggregate I think the banks might easily do that. I do not know what Mr. McKenna would say to that. (*Mr. McKenna*): Do you mean a classification of loans by amounts, say, up to £100, £100 to £500, £500 to £1,000, and so on? I think that could be done quite easily. (*Professor Gregory*): Yes. (*Witness*): Yes, that would include overdrafts too. I think there would be no difficulty about that.

787. *Sir Walter Raine*: Is it correct to say that as a result of bank amalgamations you have been able to help industry as a whole by placing large credits at the disposal of people who require them at certain times of the year in connection with, say, cotton, which the smaller banks could not have done?—I have no doubt about it.

788. It is a definite fact that as a result of bank amalgamations that has taken place?—I should not like to say that as a result of amalgamations, but rather that banking is much more accommodating to business than it used to be.

789. *Mr. Tulloch*: Is it not a fact that coincident with the growth of the banks, business has become much bigger and, therefore, bank accommodation would have to be much larger? They are large-scale businesses.—Yes, that is one of the reasons I ought to have mentioned why amalgamation has taken place. It began not with the banks, but with industries and commercial enterprises; they got together and the banks had to do the same. Just consider: What does it take to build a ship to-day, what did it take to build a ship 25 years ago?

790. *Chairman*: We are very much obliged to you, Mr. Goodenough, for coming here to-day, and perhaps later we may venture to ask you to come again. With regard to the memorandum which you were good enough to provide us with, I am just considering whether it is necessary to make it part of your evidence. If we decide to print it as part of your evidence, would you have any objection?—None at all.

Chairman: Thank you very much.

(*The Witness withdrew.*)

(*Adjourned till to-morrow, Saturday, the* 14*th December*, 1929, *at* 10.30 *a.m.*)

SIXTH DAY.

Saturday, 14th December, 1929.

Present:

The Rt. Hon. H. P. MACMILLAN, K.C., *Chairman.*

Sir THOMAS ALLEN.
Mr. ERNEST BEVIN.
The Rt. Hon. LORD BRADBURY, G.C.B.
Professor T. E. GREGORY, D.Sc.
Mr. J. M. KEYNES, C.B.

Mr. CECIL LUBBOCK.
The Rt. Hon. REGINALD McKENNA.
Mr J. T. WALTON NEWBOLD.
Mr. J. FRATER TAYLOR.
Mr. A. A. G. TULLOCH.

Mr. F. W. LEITH-ROSS, C.B.
Mr. G. ISMAY, *Secretary.*

Sir Ernest Musgrave Harvey, K.B.E., Deputy Governor of the Bank of England, recalled and further examined.

791. *Chairman*: You will recall, Sir Ernest, that when we parted last you had been dealing with the overseas and foreign Central Banks and your relations with them. I do not know whether you have anything further to say on that topic, or whether you would wish now to pass first to your relations with the Stock Exchange and other bodies, and then to the topics of banking reconstruction, new financial machinery and rationalisation, upon all of which you have something to say. (*Professor Gregory*): May I ask one question upon the relationship of the Bank of England with other Central Banks? Those relations, the interchange of visits and so on, do not impinge on the international policy of the Central Banks, do they? When policy is being discussed you have rather more formal meetings between the Governors and the representatives of the Central Banks?—Yes.

792. *Chairman*: I wonder if you could tell us anything about the Commonwealth Bank of Australia. I see in the papers that a new Bill is now passing through the Legislature?—Yes, I will say something about that, if I may. Before I actually resume where I left off, Mr. Chairman, there are just one or two remarks that I should like to make with reference to the subjects dealt with last time.

793. Please.—I thought it might interest the Committee if I circulated to them copies of the information which I think I then stated we issue to the Central Banks. We do not claim for it any particular value; it is nothing more than an attempt to collate in a convenient form information which is already available in this country, though from a lot of different sources, and therefore, perhaps, rather difficult for foreign Central Banks to collect.

794. Convenient compilation?—Yes. I thought the Committee might like to see the type of information and the form in which we send it out, so I have brought some copies with me. (*Copies distributed.*)

795. *Mr. Lubbock*: Although, as you say, the information is drawn from sources available to everyone this summary is not published in this country?—It is not published in this country, no.

796. *Professor Gregory*: Do you think that there would be any objection to the Bank issuing a bulletin something like that issued by the Federal Reserve Bank, not expressing any views, but summarising its operations?—If it were considered of use I do not really see why something of the kind should not be done.

797. You would not like any statement of opinion to be inferred from such publication, and you think it might be difficult to avoid that?—It might be difficult, I think.

798. *Chairman*: This is a very interesting publication; full of meat, if I may say so?—I was asked further to produce figures as to the average rate at which issues of Treasury Bills have been made by tender during the last seven years. I have brought those with me, and I will pass them round, if I may. It should be borne in mind in looking at the figures that the first two years, of course, were years prior to our return to the gold standard, and the conditions, therefore, are not strictly comparable. (*Copies distributed.*)*

799. *Mr. Keynes*: Might I ask you one question on these figures? I think you told us that the Treasury Bills held in the Banking Department were not necessarily discounted at market rate. Are they included in these results or excluded?—To the extent to which they are Bills that may have been tendered for by the Bank, just as the public tender, they would be included, but to the extent to which they may have been bought in the market, they are excluded from that calculation, having originally been issued in response to tenders received from the public.

800. It would exclude bills which were taken by the Issue Department at special rates?—Yes.

801. *Mr. McKenna*: This is a summary of the weekly published figures of tender rates?—Yes, taken from the published results of the weekly tenders. Then Mr. McKenna asked a question as to whether it was not a fact that the bankers' balances during the first quarter, when the Government are drawing in large sums from the public in the form of taxation, are not, as a rule, less than the bankers' balances in the succeeding quarter. I have had figures taken out for seven years; they are the averages of the weekly Wednesday night figures of the bankers. I ought to say that, in the days before November of last year, when we commenced the publication of the bankers' balances, the figures of bankers' balances, which we always had before us daily for consideration, were the London balances. Since we published these figures we have included the country balances, because we feel that the figures we publish ought to tally with the figures which the bankers themselves regard as their cash with the Bank. In point of fact, the country balances hardly vary, they are extraordinarily stable, for the reason that London is the centre where the bankers naturally employ their balances. They have facilities as regards accounts at country branches, by which, if a balance runs down at a Provincial Branch, they can arrange with us to telegraph money down for their credit at that branch. Similarly, if currency comes in to them in the country, they can pay it into one of our branches, and if, by that means, their balance at any branch is increased to a figure which they think is unnecessarily large, they can have the surplus transferred by telegram to London. For that reason, as I say, the country balances remain very stable. The variation is remarkably small. Therefore, in drawing up this comparative statement of bankers' balances, we have had to estimate the figure for the provinces in the years before November of last year, but I think you may take it that, substantially, these figures are correct. I have not had time to have figures extracted for seven years based on the daily balances of the bankers. There would not have been time. I have only taken the Wednesday night figures.

802. The daily amount is essential to my purpose. May I explain what I mean? You take every Thursday from the banks the money which they have accumulated for the payment of taxes. That money is used by you in repayment of part of the weekly Treasury Bill issues which fall due for payment on Thursday, Friday, Saturday, Monday, Tuesday, Wednesday. Now it follows from that that the money which the Government have got in hand for repayment of the Treasury Bills only comes back to the banks in the course of the week, and, consequently, they are deprived of the use of the funds from Thursday to Wednesday in a diminishing quantity as you repay the Treasury Bills. Now, my contention would be that your figures would show that, during the first quarter of the year, the bankers have got a minimum balance with you on Thursday, a slightly larger balance on Friday, a slightly larger balance on Saturday, a slightly larger balance on Monday, and only get back to their normal figure on Wednesday, the day on which you publish your figures. So that, in the first quarter of the year, we are regularly deprived of bank cash. It is only the daily figures that show that?—I do not want to be held too strictly to this, but I think I am right in saying that, not very long ago—it may be a year—it is a question which possibly a Government representative could answer with more authority than I can—the Government did, in fact, make a change as regards this taking in of taxation, and, instead of leaving money with the bankers for a week and taking it, say, once a week, they do, in fact, take it in now more frequently in order to secure a quicker transfer of the money to the Exchequer. I believe I am correct in saying now that the old arrangement under which the bulk of the money did come in on a Thursday has been considerably modified. Of course, in so far as there is a variation between the Government's receipts from Treasury Bills and their payments of Treasury Bills, that is a matter that is not in our hands. It is in the hands of the public who tender for the Bills. They may tender for the Bills payable on any day they like. If the bankers, as tenderers for Bills, have any expectation that they will be deprived of money, say, on Thursday, Friday and Saturday, they can arrange their tenders for new Bills accordingly, so that they will be receiving payment for maturing Bills in the earlier part of the week and not have to meet a heavy balance of payments during the latter part of the week.

803. But the clearing banks are comparatively small tenderers?—I should not put it too small.

804. Well, they could, to some degree, mitigate the trouble, but they could not remedy it entirely, or anything like entirely. (*Chairman*): Are there not two questions, Mr. McKenna? First of all, does this phenomenon exist, namely, the fact that you only see the Wednesday figures does not give you a fair reflection of the week? Secondly, if that phenomenon exists and is detrimental, how it can best be remedied, if it can be remedied?—I think I can give the Committee a satisfactory answer. Here are the results based on the figures of each Wednesday night. I propose to circulate them. I am going to say a word on this. I have said that I have not had time to have the daily figures taken out over a period of seven years. These are the Wednesday nights' figures, but there was time to supplement them by taking out the absolute daily average for three of the seven years, and the daily average confirms the weekly average in its general effect in all three cases.

805. *Mr. McKenna*: In the first quarter of the year?—In the first quarter of the year, and in only

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* *Average for each year of the average weekly rates at which Treasury bills issued by tender were allotted.*

	£	s.	d.
1923	2	12	5·33
1924	3	7	10·52
1925	4	1	10·73
1926	4	10	3·79
1927	4	5	1·51
1928	4	2	9
1929 (50 weeks only) ...	5	5	4·65

one of these seven years were the balances actually smaller in the first quarter than in the second; in all the other cases they were larger.

806. That is not my point. It is not the relationship between the first quarter and the second quarter, it is the relationship between the Wednesday of the first quarter and every other day of the week in the first quarter.—Yes, I appreciate that, but, as I say, I have had taken out the averages of the daily balances for three of those years; there was no time to do more; and in those three cases the daily average confirms the result shown by the weekly average of the Wednesday night.

807. Well, it is unintelligible to me, if all the banks pay over the tax money on the Thursday and that money is accumulated in the Bank of England to the credit of public deposits, how the public deposits on the Thursday are not higher than on the Wednesday. (*Chairman*): Let us see a sample of the figures.—These are the weekly averages. (*Copies distributed*).

808. *Chairman*: The real point is whether the Wednesday night figures are a fair reflection of the week during the first quarter of the year. Do I understand that you have examined not only the weekly balances during the seven years, but you have examined the daily balances for three years?—That is so.

809. And as the result you find that the Wednesday balances, in point of fact, do afford a fair reflection of the position on each day of the week?—For those three years they do.

810. *Mr. Keynes*: From the point of view of bankers' reserves, what matters to the bankers is the aggregate of their holding of notes and of their balances with the Bank of England?—Certainly.

811. When the bankers' total reserves are diminished, it may be more convenient for them to reduce their holding of notes rather than their Bank of England balances by sending in notes to the Bank of England. In so far as they do that, the reactions on their total reserves due to extreme stringency, while very real to them, would not be reflected in the Bank of England's figure of bankers' deposits, which is only one part and not the total of the bankers' reserves. Therefore, while your examination of the bankers' balances does not disclose much day to day variation, that alone is not conclusive as to the market situation, since the bankers may have chosen to reduce their holdings of notes rather than to reduce their balances at the Bank of England?—Yes. Whether it is by design on the part of the bankers that their notes are reduced I cannot say, I think it may be in large measure compulsion when the public are paying their taxes—I do not know; it is for the bankers to say; they may be forced to reduce their reserves of notes to meet the demands of customers for currency with which to pay taxes. We do know that the circulation of notes falls in the first quarter; it falls steadily until withdrawals begin again to meet the Easter demand.

812. It comes to this, that it may be that the Bank of England is short of a very vital piece of information, namely, the note holdings of the bankers. It may be that the alleged failure of the Bank of England to mitigate the severity of tax collection in the Spring is to a large extent due to the Bank of England being deprived of essential data?—Yes, I think that is very possible. Then I was asked a question, last time, Mr. Chairman, to which I am afraid I did not give a very definite reply, viz., did I feel there was objection to the other banks being represented on the Court of the Bank of England. Well, I must confess the more I have thought of it the more convinced I have become that such a thing would be most undesirable. In the first place the functions of the Central Bank and the functions of the ordinary banks are entirely different. Many problems arise which they must approach from entirely different angles, and I question very much whether anyone trained in either of those two schools would be a fit person to attempt to direct the other. I should be sorry myself, I confess, for the commercial bank that asked me to take control of the administration of its affairs. My approach to current problems has always been from an entirely different angle, and I confess I should probably feel quite lost in attempting to deal with the problems of a commercial bank. But, whether I am right or not, I think it is interesting to look at what has happened elsewhere. There are two cases. You may say they are not of outstanding importance, but still there are two cases where provision was made for bankers to be represented on the Board of the Central Bank—two cases within the British Empire. In both cases that policy has been abandoned. One is South Africa, the other is Australia. Then, again, we want to feel that we have the complete confidence of every banker, that he can feel perfectly free to come to us and to tell us his secrets in absolute confidence that they will go no further. I have some misgivings as to whether if the other bankers were represented on the Court that confidence might not perhaps diminish. We might not be made to the extent to which we are now the free recipients of the confidence of the other bankers. In this connection it is a noticeable thing that South Africa when they abandoned the representation of other banks on their Board did what perhaps the Bank of England does not often do; they gave their reasons. They said—I have the words here—"The Board found it difficult to discuss certain aspects of banking policy before representatives of the banks." That is exactly my feeling. It is true that there are countries where it is provided that representatives of the other banks shall be on the Board of the Central Bank, but there are several where it is definitely provided that such representatives shall not be on the Boards, and most of the latter are cases of Central Banks that have been most recently established—not on the advice of the Bank of England, but presumably on the advice of those consulted, people who have given wide study to the subject. There are eight such cases.

813. I think that what you have told us now is very interesting, but have you considered a more limited proposal, namely, not that the bankers should be represented on the Board of Management, but that there should be much more regular and habitual consultation as, for example, weekly joint meetings with representatives of the Treasury Committee or something of that kind? The impression made on my mind by your evidence on the last occasion was that while consultation has increased and is greater now than it was before the War, it is still in rather an elementary state?—I would say that it is in an informal state, and I am not sure it is not better for being informal.

814. *Mr. McKenna*: Does consultation of the kind of which Mr. Keynes is speaking exist at all?—Not in the form in which Mr. Keynes is speaking of it. No.

815. Of the kind; not of the form? Formal or informal, does consultation of that kind exist at all?—With some banks.

816. With some banks.—Yes, but not with a formal body of bankers.

817. That is to say, anybody communicating with the other banks on any question of policy that is proposed to be adopted or should be discussed.—I do not wish to suggest for a moment that we should allow, or that we ought to allow, our policy to be governed by something that might be said to us by the bankers, but in framing our policy we are always willing to give consideration to any representations that may be made to us by bankers. Any banker who ever seeks an interview is never refused it, and I think never fails to find a willingness to discuss matters. As I said before, I would not admit for one moment, speaking for the Bank, that there is any idea in our minds that we should allow a policy

which we think is necessary in the public good to be abandoned simply at the suggestion of a banker, but to any representations made to us from such quarters we always give the fullest consideration.

818. That I certainly agree is the actual fact. Any banker who asks to see the Governor of the Bank can always see him; the Governor will always receive him with the greatest courtesy and listen to anything he has to say, but I think you will agree with me that that does not constitute discussion of the question, nor does it necessarily imply that the Governor of the Bank of England will give an answer or even discuss an answer?—No, I agree it does not follow. We should not always hold, I think, that it would be right that we should give an indication of our policy in one particular quarter.

819. That is entirely my view also, and I am suggesting, therefore, whether it might not be desirable —I have nothing to say in opposition to your argument against representatives of the banks being admitted to the Board—might it not be desirable that there should be some opportunity for free discussion between the Governor of the Bank of England and representatives of the banks?—I would have no objection, provided it was not to be understood that the Bank had necessarily to produce its arguments in favour of a particular policy, or was under any compulsion to shape its policy according to the opinions expressed by the bankers.

820. *Chairman*: I do not think that is what is suggested. It is rather suggested that there may be a need for greater confidence between the Bank of England and the other banks, and that the other banks might feel that their views should be put before you in collective fashion—not necessarily that they should come to you, but that you should have their views before you and there should be more definite opportunities of contact. That is the suggestion. (*Mr. McKenna*): That is the suggeston. (*Professor Gregory*): I think I was responsible for raising this question originally. While I should not like to be taken as a supporter of all the practices of the Federal Reserve system, it so happens that the constitution of the Federal Reserve system includes one body which might act as a precedent, namely the Federal Advisory Council. The Federal Advisory Council answers questions which may be put to it by the Federal Reserve Board, although, as I understand the practice, the ruling authorities at Washington are under no obligation to follow the advice or adopt the views they express. Assuming it may not be in the public interest for a couple of representatives of the joint stock banks to be on the Board of the Bank of England, is not there something to be said in the present state of things for the constitution of something like an Advisory Council—without necessarily following their advice—with a view to eliciting the opinion of the banking and the business world generally?—Of course, Mr. Chairman, we are getting very near the plane of high policy, and I do not know that I really feel justified in committing the Bank in any shape or form.

821. *Mr. Keynes*: Might not this give an opportunity for the Bank to influence the policy of the joint stock banks quite as much as the other way round? For example, it would give the Governor of the Bank an opportunity, without doing anything that looks sensational, to say on a particular day to the bankers, " I am thinking of easing out the credit position a bit, but I do not want you to let that weaken bill rates and call money rates in the next week or two. If I allow your balances to increase somewhat may I be assured that you will not let that be an occasion for weakening the bill rate? "—Yes, certainly.

822. One would have thought it would have been quite as important for the Bank of England to get understandings of that sort with the clearing bankers as a whole, just as important that that should happen as that the clearing bankers should have an opportunity of putting their views to the Governor of the Bank. Or again, when it was thought undesirable that there should be certain foreign issues, the clearing bankers are at least as important a factor in that connection as are the issuing houses. If the Governor had the assurance of the whole body of clearing bankers assembled in the presence of one another that they would assist him in the matter in the regular way of business without causing anything in the way of a sensation, might that not be a desirable thing?—Yes. In point of fact, I do not think when it is a question of foreign issues being considered undesirable that we have ever hesitated to express our opinion to the other bankers. It is true, as I say, that the relations have been informal, but they are fairly constant with most of the bankers. What you want is something rather more formal I gather.

823. More regular rather than more formal.—More regular. Please understand that I am speaking for myself without having consulted a single one of my colleagues. Anything that tends to promote contact, co-operation, understanding, I welcome myself.

824. *Professor Gregory*: I think you understand that we are all of us rather feeling our way in this matter. We are very anxious to obtain your personal views without in any way committing the Bank, but it does strike one that machinery is provided in foreign countries which may have some bearing on the problems which we have to discuss as a Committee. (*Mr. Keynes*): It is true that this bears on high policy, and I have matters of very high policy in mind. It appears to me that perhaps the greatest dilemma of the banking system at the present time is that what is the right policy from the internal point of view may be the wrong policy from the external point of view. Well, now, if we depend upon *laissez faire* and automatic working and inscrutable actions it may be impossible to avoid something that is done for external purposes having unfavourable internal reactions. But if you had a joint policy between the bankers and the Bank of England by which an act of the Bank of England was allowed to have its full effect externally and was prevented by the bankers from having an unfavourable effect internally, currency management might be put on a different plane. Perhaps our chief difficulty is in keeping the bankers from pursuing a different internal policy from what suits the external policy, but I cannot see how that can be avoided if the Bank, which primarily depends upon the working of economic law consequent on its acts, has no definite understanding with the individuals who by their daily actions determine what happens internally fully as much as, if not more than, the Bank of England itself. (*Chairman*): Mr. Keynes has formulated a very large issue and I would suggest that it should stand on record until the Governor comes before us. You will give him notice of that question, Sir Ernest?—Yes.

825. *Chairman*: I do not think Sir Ernest is called upon to answer at present. I think we might pass to the next class of your evidence.—I was dealing with relations with foreign Central Banks. The question is sometimes raised: Most foreign banks have statutes or definite regulations, why should not the Bank of England have the same? I say the cases are not comparable. I think I have said much of this before. We are the product of evolution. In the case of many foreign countries, most foreign countries, central banking is a new plant; in some cases they have not the people trained up in the tradition of central banking, the work has often to be placed in the hands of people whose only knowledge of banking has been gained in ordinary commercial banking and who, therefore, have not only got to learn what central banking is, but have got to unlearn a great deal of the objects which they have pursued as commercial bankers. We do our best to help them, but the work must be slow. For myself, I am satisfied it is making progress. We meet with a remarkable degree of friendly co-operation in some quarters, in others we find still an attitude of reserve and I might almost say some appearance of suspicion as to our motives. It has

even been alleged, it was alleged in the Press at one time, that the object of the Bank was to set up a Federal Reserve system in Europe, with the Bank of England and the Governor of the Bank of England at the head of it. Well, of course, the suggestion was and has always been ridiculous. I think we are convincing our friends abroad.

You asked me, Mr. Chairman, whether I would say something in this connection regarding Australia. There, I confess I am in a little difficulty. I went to Australia as an invited guest, with no prompting from this side, but I had not been there long before I discovered that there was a feeling abroad in some quarters that I had been sent by the Bank of England in order to secure some object for this country at the expense of Australia. It was often being brought home to me, and I had to use every bit of such discretion as I may possess in order to try and allay that feeling. In talking about Australia I am in this difficulty. The Commonwealth Bank treated me very frankly, they gave be absolute access to everything, and it would be difficult to discuss the subject without perhaps revealing matters which I have no right to reveal. I should prefer to be excused at this moment from saying anything on the subject.

826. I think we respect your difficulty, Sir Ernest? —I have great hopes that things are really moving in the right direction at last, though I confess that progress has been slow.

827. *Professor Gregory*: You are probably familiar with the fact that the conversations between the Governor of the Bank of England and the various personalities connected with the Federal Reserve system have been very freely handled by Committees of Congress from time to time. Do you not think that that rather strengthens the case, I will not say for immediate publicity by the Bank of England, but for something like an Annual Report in which the British point of view can be put? I would entirely agree with you that American opinion is extremely suspicious of international co-operation, but assuming that international co-operation is inevitable and is in itself desirable, is there not something to be said for the views of American politicians as expressed in published documents in America being corrected by published documents or a statement of facts by the Central Bank in this country? —Your question reminds me of another point that I had intended to touch upon, this very question of the suspicion which seems to attach to any movement of a Bank of England representative outside this country. When the Governor goes abroad all sorts of wild rumours immediately appear in the Press, that he has gone to arrange for a credit or something special of that character, when the visit is probably nothing but a visit of courtesy to discuss questions of mutual interest on terms of equality. What worries me is the thought that if we embark on a policy of explaining matters of a character so simple, ordinary, and I should say necessary, where are we to stop? There might be circumstances in which questions of real importance and yet unsuitable for publication were involved, and if we then offered no explanation, what would the result be? The matter is full of difficulties I assure you. But I think, Mr. Chairman, if I were really to discuss the subject very fully I should keep you beyond the limits of the time which I have still left to me.

828. *Chairman*: I think we have pursued this topic adequately. I am particularly anxious now to hear what you have to tell us about your new financial machinery and rationalisation. That is an extremely practical side?—I am just coming to that, but before I pass to that I have something to say that may interest the Committee merely as one illustration of the way in which we try to perfect our own internal organisation. With the object of ensuring that our Executive shall work as a combined team with a single purpose, meetings are held twice weekly of about ten to twelve of the senior members of the Officials with the Governor presiding and the Deputy-Governor also present. At these meetings everyone present is free, and indeed is invited, to report on any matters of importance which may have occurred since the previous meeting in the particular branch of the Bank's work with which he is connected. Everyone is free to ask questions, to express comments and to obtain explanations. In this way we try to secure co-ordination of the Bank's various business activities, and the Governor has regular and frequent opportunity of giving such directions as he may think necessary to ensure that everything is proceeding in accordance with the policy which the Bank may for the time being have in view. In addition to such meetings frequent daily intercourse is, of course, maintained between the Governors and the Officials.

Now, Mr. Chairman, if I may come to industry—and that is the last subject on which I hope I shall have to ask you to listen to me—I said at the commencement that we hold it to be one of the primary functions of a Central Bank to maintain its assets in the most liquid state possible. We do not ordinarily consider it, in these times, to be any part of our duty to finance industry directly, but to safeguard the Central Cash Reserves and so make secure the basis on which the commercial banks may be able to discharge that function, in so far as it is the duty of commercial banks to do so. There must, therefore, be a limit to the extent to which the Central Bank can give direct assistance. But desperate diseases need drastic remedies sometimes, and for quite a long time past the Bank has been trying to discharge its part, as a special operation in these difficult times, to assist industry. For some time our operations consisted mainly of interviews with representatives of many important industries, people of real weight in their respective industries, who could give us really reliable information. Out of those interviews other steps have gradually developed. Various industries have approached us through different channels. We engaged, spasmodically at the start, perhaps, people whom we believed to be versed in the difficulties of industry and competent to act as advisers to the Governor. But, of course, the moment came when we realised that our efforts had got to take a more definite shape, and a short time ago we registered a private company, in which we hold the whole of the capital. Our object was to make it quite evident that this business was something distinct from our normal functions. We obtained the whole-time services of various experts, technical, accountancy, legal, and one who we thought, having had very close contact with labour and labour questions, would be able to voice in the discussions the views and feelings of a responsible and well-informed representative of labour. Well, up to the present, four such experts have been definitely engaged, who are Directors of this company and are devoting the whole of their time and energies and enthusiasm to the company, and I think I can claim that they are each of them worthy representatives of their respective spheres. We find that very often there is need for somebody to give a financial lead. The root of the trouble is often financial. I am not going to attempt to say where I think much of the blame lies, but in essence the trouble is often financial, and, obviously, if the Bank of England itself is to find money, or if it is to be able to go to other financial quarters and induce them to find money, there are certain conditions which the Bank is entitled to lay down. The Governor is Chairman of this company, and the Bank Court has other representation on the Board.

829. What are the objects of the Company, as set out in its Memorandum?—In the first place, to advise industries. You have one of the Company's Directors here; perhaps he can tell you more about it than I can myself, but the main objects are to advise industry, to examine schemes for reorganisation, rationalisation, and so on, to advise where we think schemes may be unsound, if we do think so; to the extent to which it is legitimate for us to do so, to provide in some cases some of the initial money, to ensure that schemes are of such a

nature as to justify appeals for financial assistance in other quarters; and all with the object of getting these industries into a position in which they can appeal to investment credit. There is a lot of talk, of course, about credit for industry, but there is a tendency to think only in terms of bank credit. The difference between the functions of bank credit and investment credit is too great a subject for me to attempt to deal with, but our object is to try and get such distressed industries as come to us to recognise that, as a first condition, they have got to put their own house in order. We are not going ourselves to provide money, nor are we going to try and induce others to provide money simply to bolster up any industry which in the absence of adequate reorganisation is in itself obsolete and inefficient, or uneconomical, and which has no chance of meeting on a proper competitive basis the competition of new and reorganised industries in foreign countries.

I am glad to say—and I take this to be evidence in support of the existing character of the Bank Court—that we have, through representatives on our Court, access to varying and important financial circles; we know, therefore, that on the financial side we start with goodwill, and many of the members of our Court have given an immense amount of time and trouble to the consideration of these matters. We have, in principle, their absolute support. If schemes are brought to us, they are examined by the Directors of this company, who are experts, who are our advisers; they are then considered by the full directorate of the company, with the Governor and other representatives of the Court, and thus have to pass through another sieve, that we may be quite sure that, on the financial side, they are sound, that their capital position is not top heavy, overweighted with prior charges, and so forth. If, then, they are considered to be really in the public interest, the Court of the Bank are, within the limits which we must of course maintain, prepared to find, if necessary, moderate amounts of initial cash, and we have already secured in principle the sympathy and support of various financial circles who are prepared to help when help is shown to be justified, but always with the ultimate view of trying to engage the sympathy, the interest and the support of investment credit. I want this to be clearly understood because, here again, I have had responsible people, whose word I can accept, come to me and say that it is alleged that the Bank of England, in entering the industrial field, is in fact trying to secure permanent additional business. I mention the point, though I need not, I am sure, tell this Committee that, of course, there is not a word of truth in it. It is clearly recognised amongst ourselves that the amount of money we are prepared to employ in this class of business, bearing in mind the need for the maintenance unimpaired of our ability to discharge efficiently our primary functions, has to be regarded as a revolving sum, and that as soon as we have put an industry on its feet and can feel assured that it is in a condition in which it can fairly appeal for investment credit, it is for us to withdraw and to secure the release of our money so that it may be available, if necessary, for the help of other industries.

830. Have you had a number of schemes of that sort?—Well, of course, we started with a case which has already been mentioned, though it does not really come into the picture because that was a matter affecting one of our own old banking clients; that was the case of Armstrong's. Another which perhaps hardly comes into the picture either, because it was of a different character, was when the Government of the day decided to embark on a scheme to provide credit on moderate terms for agriculture. Now, if I may take that case: The Bank of England had no interest in agriculture, had not a penny piece embarked in agriculture, and never regarded it as their duty to give direct assistance to agriculture; but, at the request of the Government, they did call the bankers together and invite them to join in supporting the scheme. I think, very largely owing to the appeal which was made to them by the Governor of the Bank, general agreement was secured. The scheme did not, I believe, command support in every quarter, but the proof of the pudding is in the eating. I have not the figures before me, but quite considerable applications, I understand, have been made for assistance under the scheme, and are still being received in some volume. And what is perhaps more remarkable still—I do not know whether there are any Scotsmen present, but a Scotsman generally is as quick as anybody to discern on which side of the bread the butter is—Scotland is I understand clamouring to be brought into the scheme.

831. *Mr. McKenna*: The bankers or the farmers?—The farmers, the agricultural interest; they are demanding to share in the scheme. There are difficulties, of course, owing to the differences in Land Law between Scotland and England, but efforts are being made to find a way round them.

The first real case, perhaps, which occurred was the Lancashire Cotton Corporation. That was a case where we were approached by the industry. We went very fully into the scheme and we realised that wherever the fault lay for the condition into which the industry had got—and I am not going to attempt to apportion the blame—there was a number of bankers interested also and, therefore, it was obvious that we ought not to go forward without moving in conjunction with them. The Governor invited the bankers to meet him and we had many discussions. They found us, I am afraid, sometimes rather hard, simply in our anxiety to ensure that the new undertaking would start without a top-heavy capital position. But, even there, there are limits to what we can do. It is no business of ours what money any commercial bank may have in any field of industry, and it must be for the commercial banks to determine entirely for themselves, with a knowledge of their own obligations, their own positions and so on, and, bearing in mind their primary obligations to their depositors, what they can do, how far they can go. Therefore, we have in such a matter to act with a certain restraint. But at the same time, I will say, it is fair that I should say this, that the bankers as a body have, generally speaking, given us their very loyal support and help. Now, the progress of the Lancashire Cotton Corporation—some of you very possibly know more about it than I do—has been slow, but we are assured by those whom we can trust that it has been sound, that it is steadily going forward, and that it is going to be a success.

Another case we went into was Beardmore's. We followed exactly the same procedure there. We had the representatives of the company, we had our own technical advisers, representatives of the banks interested, and just the same sort of discussions took place, and a scheme was eventually devised. I believe there are those who criticise it, but, of course, it does not mean necessarily that, when we have devised a scheme for a particular concern, that is the end of things. The Governor is a man of vision, and it is remarkable how often his visions come true. I know it is in his mind—I believe it is in the minds of those who are working loyally with us—that these schemes are only one step on the road. It may be that you put on its legs a Company which is engaged in doing all sorts of diverse operations which could be performed much better if they were severally linked up by the process of what is called rationalisation, with corresponding work in other Companies. Therefore, in some of the steps we take, we do not regard them necessarily as complete operations in themselves, but merely as stepping-stones to further operations at a later stage. I said that, of course, if we were to put up money, or if we were to invite other financial quarters to find money, we impose certain conditions. As one of them, I mention the degree of promise afforded by the schemes for the reconstruction of works, the reorganisation of the capital position, and so forth. Then we claim the right to assure ourselves that those who are to be in charge of the industry are qualified, that the technical people are really qualified from the technical point of view, that there are representatives of accountancy who can really keep a proper watch, and control and give advice on the side of the accounts, that there are financial advisers who can be relied on from the point of view of finance. In that way, we do claim a right to a certain measure of control, but only so long as we have our own money there or money put there at our instigation, or on our invitation. I do not know that I can enlarge further, Mr. Chairman, on the subject.

832. *Chairman*: I suppose this system is designed to bridge the gap when the investing public will not take up an industry which is in a depressed condition?—That is our intention.

833. It may be induced to assist it if, by your intervention it is put on its legs?—That is so, the industry having its own part to do in really facing realities and being prepared to cut out dead wood. It is a painful process, and, of course, we are sometimes met by a reluctant attitude, not unnaturally, but it is an operation that has got to be gone through; inefficient or uneconomic industries have got to face it.

834. *Mr. McKenna*: Would it be correct to say that the existence of this company has been a matter of secrecy?—No, it would not. It is registered. It is a private company. As a matter of fact, I have a cutting from a newspaper dated last Saturday, containing a reference to the fact, giving the names of the Directors. It does not mention it as a company actually, but calls it an Industrial Council. It was referred to there. We have no desire to make any secret of it whatever.

835. *Mr. Keynes*: Who are the Directors?—The Directors are at the present time the Governor, Sir Andrew Duncan, Mr. Frater Taylor, Sir James Cooper, Mr. Bischoff and Mr. Frank Hodges. We may add to the number. Obviously, if you have an expert in one particular industry and you decide to tackle another, you may want to enlist an expert in that particular industry. We place no limit on the number.

836. *Mr. Newbold*: What is the name of the company?—The Securities Management Trust.

837. *Mr. Frater Taylor*: You used the name of Armstrong's a short time ago. Should not that have been Vickers-Armstrong?—Well, Vickers-Armstrong. It is true we were concerned in Vickers-Armstrong, but for the reason that we were primarily concerned in Armstrong's; the latter were our clients; we had no connection with Vickers, and our connection with Vickers-Armstrong arose out of our connection with Armstrong's, when it was decided to cut off the armament sections of the two concerns and amalgamate them into a single unit.

838. *Mr. McKenna*: What is the capital of this company? Is it a nominal or a large capital?—Nominal. We finance it entirely.

839. You may remember that, at the time of the formation of the Agricultural Mortgage Corporation, there were communications between the Government and the heads of the commercial banks. Was any communication at that time made by the Bank of England to the commercial banks saying that they were helping in the formation of the Agricultural Corporation?—Undoubtedly.

840. Was any indication given at that time of the formation of this company?—The company at that time did not exist. The need for this company has arisen owing to the extent to which this work has increased, and our desire is to put the principal part of the duties into the hands of experts, merely retaining for ourselves a sort of supervisory position, and that degree of control which must rest with those who find the cash. The company is of recent formation.

841. *Chairman*: What is the date of registration?—I do not suppose it is more than a month or two ago.

842. *Mr. Lubbock*: I take it that the formation of the company was to a considerable extent made for technical reasons?—For technical reasons.

843. And the work could just as well be carried on with the gentlemen you have mentioned as expert advisers of the Governor?—Obviously there are certain classes of security which we may have to hold with our money for a time which are not suitable securities for a Central Bank, and we decided that it would be better that it should be a separate concern severed from the Bank of England *qua* Central Bank.

844. *Mr. McKenna*: I understood from your previous evidence that it was through this company that the Bank of England had operated?—No; not until recently.

845. As I was engaged in discussion with the Bank of England at that time with regard to the subject I could not understand it.—No, I am sorry if I misled you.

846. It is of quite recent formation?—The company is of quite recent formation.

847. *Mr. Newbold*: Is it concerned entirely with British industries? It is not going in for foreign reconstruction as well as British?—None at all.

848. You have done a great deal of that with foreign Central Banks, have you not? Take the Anglo-Austrian?—It is true if you refer to the National Bank of Austria.

849. No, the Anglo-Austrian Bank of Vienna.—Yes, we have; but there were special reasons. You will remember that when the War broke out the Bank of England, at the request of the Government, undertook very large obligations in connection with acceptances in the London market, and that forced us into certain positions which we have been engaged ever since in gradually liquidating. It is that alone which has established any connection between ourselves and such an institution as the Anglo-International Bank.

850. *Mr. Bevin*: Sir Ernest, you were very careful in your evidence to say that you did not apportion blame, but take the cotton industry, or any other industry you like, would you agree that one of the real difficulties that has brought them to their present position was over-capitalisation following the War?—I think it is one. Of course, it has been brought home forcibly to us that the War did compel certain industries to embark on large capital expenditure to meet national requirements, to incur large indebtedness and—I am thinking now more particularly of armament firms—they were left afterwards with this load of debt on them, none of which was productive, because the product of that expenditure is no longer required, of course.

851. I appreciate that, but to what extent do you think, for instance, Lancashire cotton was brought to its parlous condition by the dissipation of reserves owing to bad finance after the War?—I would rather answer that another way. I do not profess to be a profound student of various industries, but I have been told by people who have studied the facts that, in regard to many of the most successful industries of the present day, industries which are often the target of very hard words from the ordinary uninformed critic, as regards their wealth, their present distribution of profits and so on, if the history of those industries is studied—I am told—it will almost invariably be found, that for years, in their initial stages, the owners of those industries were contenting themselves with very modest drafts on the profits and were pouring profits back into the industry the whole time and building it up.

852. That is a good thing?—Undoubtedly, but it has put them into a position, unfortunately, which does make them a target now for uninformed critics.

853. I am not thinking of those who have distributed profits as being the target; I am thinking of those who have got hold of firms like Lancashire cotton, who had done what you say they had done, poured their money back into the industry over a

number of years; somebody comes along—names are well known—gets hold of the shares of those companies, pays a low price for them, and, in a short time, disposes of those reserves. That is what has happened in many of these firms?—I am told it happened. I do not pretend to have studied particular cases.

854. The Bank of England, through this company, is seeking now, after all this has happened and whatever the cause may be, to put these firms or put these industries on their feet. When the Bank has got the industry going again, it then leaves it without that parental control and guidance, and so the industry goes back to the ordinary management. I think that is what you say?—Our idea is that, having put an industry on its feet, it is no part of the Central Bank's duty to keep a permanent interest in industry, and we should like to be out of it.

855. One of the ways you have put it on its feet is to take a very conservative view so far as reserves are concerned, is it not?—Yes.

856. We may get a boom in that industry. Do you think it would be wise that there should be legislation or some other protection of that industry against the possibly unscrupulous city financier who sets out to get hold of the industry for the purpose of getting hold of the reserves?—It is a very big question that; I am afraid I have not considered it.

857. I want to put it another way. You start off with a prosperous business, with good reserves that have been built up for two purposes, to equalise dividends and, further, to stand the strain even of wage costs when you have to cut prices during a slump, or something of that kind, and so you tide over the breach. Since the War our experience has been that those reserves have been wickedly dissipated. Then the workmen associated with the industry have to face a demand—they are told it is a purely temporary adjustment to meet a difficulty—for heavy reductions of wages in that industry, and then the industry goes along the long weary road of five, six or seven years to bankruptcy. The bankers pour money in, having so much there they pour in more in the hope that they will not lose what they have already there, and so the industry goes along that weary road until we get to the crisis we are in now, with no reserves and no means of readjustment. Then your company steps in. But the workman has had six or seven years along the weary road to bankruptcy. That is our problem, and in 90 per cent. of the cases our experience is that there is wicked dissipation of reserves. I agree that pouring the money back into an industry, after reasonable interest has been paid, is sound finance. Looking at industry with the experience that you have gained as a result of your expert knowledge, do you think that this Committee ought to recommend that some steps should be taken to protect industry itself against these, shall I say, unjust custodians, who might dissipate its reserves, and so prevent the industry standing the strain in a cycle of depression?—Well, I cannot honestly say that I have considered the point.

858. *Chairman*: The point which impresses me too is this. You step in in the most beneficent fashion and you rehabilitate the industry. Then, very properly, it not being your business to conduct an industry, you retire. Now that the business is rehabilitated, what security is there against a repetition of the same class of operation as has undoubtedly been disastrous in some cases in the past? But I think that is more a matter of the form of the company rather than the finance. (*Mr. Bevin*): I was rather wanting to get some information on the subject from somebody who has had experience of the reconditioning of these industries. I quite appreciate Sir Ernest saying that he does not want to criticise anybody, but I think we must find a witness who will tell us and who will criticise somebody. (*Chairman*): I think we will get that. (*Mr. Bevin*): We will get somebody, but probably not those who have been engaged in the actual reconditioning. If this expert body has been looking into the affairs of an industry, nobody else can give us such valuable information. (*Chairman*): I think Sir Ernest must, in the course of his investigations, have discovered the symptoms to which you allude, Mr. Bevin, and it may be that he has been engaged in finding a remedy for such a process?—(*Witness*): May I say, if an expression of opinion on that point is wanted from the Bank, I think you would get a much better informed and more authoritative opinion from the Governor, who has been much more closely connected with this branch of the Bank's work than I have. (*Chairman*): It is obviously important, because if the Bank of England takes its part in rehabilitating an industry, one does not want its work thrown away. (*Mr. Bevin*): In 90 per cent of the serious labour disputes that you can select in the industries of this country, you can place the blame in large measure on the dissipation of reserves and on bad finance and on the change of attitude towards the control of the industry as it existed prior to the War. (*Lord Bradbury*): Might I ask Mr. Bevin exactly what he means by "dissipation of reserves"? Does he mean the waste of the substance of the company by mismanagement or by distribution of excessive dividends? (*Mr. Bevin*): By distribution of bonus shares for example. (*Mr. Tulloch*): The bad finance in the Lancashire Cotton Trade is admitted, but that is not the cause of the trouble to-day.

859. *Mr. Keynes*: To an outsider it would appear that the obstacle to rationalisation is not so much the difficulty of obtaining finance once a fairly sensible scheme has been framed by the industry itself, but the difficulty in framing this scheme, either on account of the obstinacy or the old-fashioned ideas or the selfishness of Directors, contrary to the interest of the industry as a whole, or of a desire of the banks to exploit the full value of any securities on which they have a lien or perhaps of reluctance on the part of the banks to put pressure on their customers in what is not purely a banking matter. Has the Governor of the Bank of England any hope that reorganisation through the company which he is building up will help in the solution of those problems, that is to say, knocking together the heads of the Directors and knocking together the heads of the clearing bankers?—Yes. Undoubtedly a good many heads have been knocked together already.

In closing my evidence on this subject I should like to suggest to the Committee that the fact that the Bank has been able to undertake this work in the field of rationalisation ought to be regarded as striking testimony of the wisdom of the arrangement under which the Bank is permitted to operate free from restrictive Statutes or Regulations other than those which they may make for themselves, for it seems to me hardly conceivable that had such restrictions existed the Bank would have had the power to intervene as they have done with a view to the betterment of industry.

860. *Chairman*: I think, Sir Ernest, on behalf of my colleagues and myself, I ought to express to you our indebtedness for the valuable evidence that you have given us. You have given us a great deal of information and, if I may say so, you have shown great candour. (*Witness*): I should like to express my gratitude to the Committee for the kind and, if I may say so, gentle way in which they have handled me. I have tried to give a really frank picture of things as I see them. If, in your later discussions, there are any other points on which you would like further information as regards methods, practice and so forth, of course I am always at your service. (*Chairman*): I think in your case our gratitude will take the form of a lively sense of favours to come. We shall have to resort to your assistance again. In the meantime we can give you an interim dividend of thanks.

(*Adjourned.*)

SEVENTH DAY.

Thursday, 9th January, 1930.

PRESENT:

The Rt. Hon. H. P. MACMILLAN, K.C., *Chairman.*

Sir THOMAS ALLEN.
The Hon. R. H. BRAND, C.M.G.
Professor T. E. GREGORY, D.Sc.
Mr. J. M. KEYNES, C.B.
Mr. LENNOX B. LEE.
Mr. CECIL LUBBOCK.
The Rt. Hon. REGINALD McKENNA.
Mr. J. T. WALTON NEWBOLD.
Sir WALTER RAINE.
Mr. J. FRATER TAYLOR.
Mr. A. A. G. TULLOCH.

Mr. G. ISMAY, *Secretary.*

Mr. FREDERICK HYDE, Managing Director of the Midland Bank Limited, called and examined.

861. *Chairman*: Mr. Hyde, you are the Managing-Director of the Midland Bank?—Yes.

862. You have been good enough to come this afternoon in response to the invitation of the Committee. I see you have furnished us with an outline of the topics to which you propose to devote your attention and I think, if I may say so, that it will form a very useful theme. First of all, as regards the actual administration of your bank, have you an Executive Committee?—Yes.

863. And does that consist of yourself and seven Joint General Managers?—Yes.

864. Does that body meet every morning?—Yes.

865. May I take it that that is the body that really comes to the operative decisions of the bank from day to day?—That is so.

866. I think it would be useful if you were to give us first of all an outline of the general principles upon which you work, what are the subjects to which you address yourselves at these committee meetings every morning and what is the nature of the decisions to which you come?—In order to understand the procedure of the Committee it is necessary to explain the principles of banking on which we work. We must bear in mind that our deposits are in a very considerable part payable on demand, and even those deposits that are fixed for a period may be payable on demand by arrangement with the depositor.

867. So that puts upon you an obligation, does it not, to keep available an amount of cash which is sufficient to meet any demand that may be made upon you?—Which is very much more than sufficient to meet any demand that may be made upon us.

868. With a margin?—With a very good margin. The figure that we generally keep is about £40,000,000.

869. And what percentage does that represent of your total deposits?—That is about 11 per cent. of our deposits. After we have allowed for the £40,000,000 of cash that we keep in absolutely ready form to meet withdrawals we have then to consider how we shall spread the rest of our assets, bearing in mind two principles. First, that we must keep still a large proportion of our assets very liquid so that if there are withdrawals from our cash owing to the shrinkage in our deposits we can replenish the cash and still maintain very large liquid resources.

870. The second line of defence?—The second line of defence. Then the second point is that we have to earn a profit. You can quite well understand that our expenses are heavy. We have our dividend to pay and we have to ensure, after writing down our premises and seeing that we have properly depreciated every other asset, that we have made full provision for what must necessarily occur at times, that is, bad debts, and, therefore, we have to see that we use the remainder of our assets as well as we can in making profits. For that reason we distribute our assets over a variety of different forms of employment so as to secure two objects, first of all, liquidity and, secondly, profits.

871. We have before us a statement of the accounts of the bank at 30th June, 1929, which has been circulated. May we take it that that is put before us as an illustration of the distribution of your assets?—Yes. I had perhaps better say first of all what are the figures that we aim at, because we do not always succeed in hitting exactly the figures that we are striving for. We say that we want to keep about 11 per cent. of cash. Then we have to keep necessarily a fair amount of money representing cheques in course of collection drawn on other banks and balances with other banks up and down the kingdom, and that figure is generally in the neighbourhood of 3.5 per cent. of our deposits. That is essential, and it arises out of the volume of business that we are doing. We are always collecting a very large amount of cheques and we have always a big amount to provide to cover the cheques that are in course of collection. Then we come to our second line, and our second line primarily is the money that we have at call and short notice in the London money market, in the bill market. We aim at keeping about 7 per cent. of our assets in that form. Then our next line is our bills. We always want to hold a considerable total of bills because for one thing they mature and are paid daily. They bring money in without having to call it, which, in some respects, is easier than going to the market and having to withdraw the money that you have already lent. Therefore, we keep about 15 per cent. of our assets in bills. The next item is investments. We hold a considerable amount of money in the form of short-dated Treasury Bonds of the British Government and a certain amount of longer-dated stock, like War stock and Conversion stock, and we aim at keeping about 12 per cent. of our assets in the form of investments. That leaves us with approximately 55 per cent. that we can lend in the shape of advances to our customers.

872. If you take this balance sheet that you have furnished to us, taking first of all the coin and gold bullion, it stands at £39,000,000?—That is the 11 per cent. that we aim at.

873. Then, balances with and cheques on other banks in Great Britain?—We aim at 3.5 per cent. As a matter of fact, it is 4.2 per cent. on our last balance sheet.

874. The next item, money at call and short notice. The figure you aim at is——?—Seven per cent. of deposits, and we have 6.5 per cent.

875. And then for bills?—We aim at 15 per cent., and we have 14.4 per cent.

876. Then investments?—We aim at 12 per cent., but we have only got 8 per cent.

877. And then, lastly, advances?—Fifty-five per cent., and we have got 58.6. If you add those percentages together you will see they come to rather more than 100 per cent., but that, of course, is because included in our total is some portion of our capital that is not employed in other directions.

878. May we take it, therefore, that when you are making your daily survey of the position of your bank you look at each of those items?—Well, we look particularly on our cash. We make up a balance sheet once a week and, therefore, we cannot get the other figures every day; we get them once a week; but in our daily survey we look at our cash.

879. And in your weekly survey you review the position to see to what extent there is a discrepancy between what you regard as the ideal working conditions and the actual position?—Yes.

880. And in this statement of accounts you have given us the percentages, which—as very often happens—do not correspond with the ideal?—The principal discrepancy is between the investments and the advances. Our advances are pretty high and our investments are low, but I will refer to that later on if I may. Our first business is to look at the cash and to see whether our cash balance at the close of business on the previous day has increased or decreased. If it has increased we look to see where the money came from, and we take note of the big items that have come in and the big items that we have paid out during the day, which gives us a general view of the larger transactions that have gone through the bank during the previous day. We then look at the payments and receipts that we know we are going to have during the day, and we estimate what our balance will be at the close of the day. If that estimated balance is more than we want to make up our 11 per cent. we consider how we should use it. If, on the other hand, it is less, we have to determine whether we will call money from the market or whether we will let the balance run below normal until the maturity of our bills restores it. As I have said, we have a large amount of bills falling due every day. If we have money to lend we consider in what way we shall lend it, whether we shall lend it in the market against the deposit of fine bankers' bills, or whether we shall use it in the purchase of bills, and we should be guided in that probably by the state of our bill case, how our maturities were spread. We cannot afford to hold a balance unemployed beyond our standard balance because we have to allow interest on practically the whole of our deposits and, therefore, we have to set to work to try and earn the interest. Then, on the weekly survey, during the week we have been lending money either in the shape of short money in the market or in the purchase of bills, and we cannot follow from day to day exactly how our advances are going. We can see any big amounts that are repaid, and we can see any large deposits that we may receive, but there is a whole mass, thousands of other transactions, which in the aggregate amount to a considerable sum, but which individually are small. Therefore the increase in our bank balance may have arisen from the fact that our advances have been repaid, and we may find at the end of the week that our advances are down below our 55 per cent., and that our bills and short money are above the percentage that we have allotted to them. In that case we should then have to consider whether we would not allow our bills to run down or call money from the market with the view of adopting a more liberal policy in connection with the granting of advances.

881. With regard to this series of percentages, what is the equipoise which you would regard as the ideal? What is the principle upon which you have allotted these percentages to the different categories?—To begin with, the question of liquidity. We want to keep an ample margin of liquidity, so that we can always replenish our cash without any uneasiness. Secondly, we want to employ as much of the money as we can in assets which produce a good return. The return, of course, from the short money in the bill market, or the short bills that we buy in the market, is very low; the more profitable assets are the investments or the advances, and therefore, quite apart from any question of our desire to accommodate our customers, looking at it purely from the point of view of making profits, we have got to see that we employ a proportion of our assets in the profitable lines.

882. Quite. Now, we are naturally specially interested in the item of advances to customers under "Other Accounts." We should like to hear from you how you deal with applications for advances. What is the bank's policy in that matter?—We have about 2,000 branches, and for the purpose of dealing with our advances we divide the bank up into six sections, geographically. At the head of each section is a Joint General Manager.

883. What is the extent of the authority of the local managers?—Nominally all advances must be sanctioned by Head Office, but in practice there is some latitude in the application of this rule. A manager of an important branch may frequently make an advance to a customer before he has got the sanction of Head Office, but in that case he would immediately submit an application setting out what he has done, and why he has done it.

884. *Sir Thomas Allen*: Is there any limitation of the amount which he may advance?—Nominally he must get sanction for everything; we do not recognise the sanctioning of advances without the authority of Head Office, but obviously the manager of a branch in an important town like Liverpool, or Birmingham, or Manchester, if he were asked to lend £20,000 or £30,000, against undoubted security, to an important customer to whom he had been in the habit of lending money in the past would say "Yes" at once, and he would anticipate the authority that he would get from Head Office later on. He must be guided by his judgment, and in practice no difficulties arise.

885. *Mr. Brand*: There are no small amounts specified to which he can give sanction, up to say, £2,000?—No; we do not give any discretionary limit at all to our branches. This is what would happen when a customer wanted an advance. He would go to the manager in the ordinary way, and he would foreshadow what he would be likely to want during the next two or three weeks, or possibly two or three months. As a rule a customer does not expect an answer from the banker then and there—"Yes, you can have it." He would foreshadow what he wanted, and the manager would naturally take time to consider it if it were a very important sum, and having discussed the business with the customer, and having satisfied himself that it was a desirable advance for the bank to make, and in other respects, he would then fill up an application form, which he would send to Head Office. That application form would show in a convenient condensed form what the branch manager knew about the customer, what his business was, how long he had known him, whether he was successful in business, what the money was wanted for, and how it was going to be repaid. This application would come up to Head Office and would be received by the Superintendent of Branches. We have about 30 Superintendents, each having charge of a district of branches. The Superintendent has authority to sanction applications up to a certain limit, so that when he gets these applications if he is satisfied with them, and if they are within the limit that he has power to sanction, he would at once sanction them, and that sanction would go off immediately to the branch. If the amount of the application were beyond his discretion he would take it to the next official above him, who would be either a General Manager's Assistant or an Assistant General Manager, and would discuss the business with that official. That official has a higher limit up to which he can sanction, and he would sanction

those that he approved of within his limit. An application beyond the limit of the Assistant General Manager would be taken to the General Manager of the section, who has a still higher limit.

886. *Chairman*: You yourself, Mr. Hyde, are at the top of the hierarchy?—Well, no. I will come to my position presently, if I may. The General Manager would pass an application within his power, and anything that is beyond his power he would bring the next morning in the ordinary way to the Executive Committee—that consists of myself and the General Managers, and we should then discuss that proposition in detail, and if we were all satisfied we should sanction it. Any application not approved, even if it is a small one, would have to be submitted to the Executive Committee next morning before its rejection. Our object in doing that is that we do not want a branch manager to feel if he is out trying to get business that there is some unsympathetic official at Head Office who is turning it down. Before any application is rejected it must be considered by the Executive Committee. That means that in the ordinary way every application that has come into the bank, whether it is going to be accepted or whether it is going to be rejected, will have its answer the next morning—that is, the morning after it is received. If there is any urgency about it, if the branch say " This is a matter in which we want an answer at once," there would be a special meeting of the Executive Committee in the afternoon to deal with it, and the answer might even be telegraphed, so that the branch would get the answer the day after the matter was submitted to them by their customer, and that would prevent any possible complaint that there was delay in dealing with the matter. Of course, it might happen that the particulars submitted by the Branch Manager were insufficient to lead us to a decision, in which case there might be some delay in getting further particulars. But normally practically every application that comes into the bank is sanctioned or declined the following day.

887. I understand that no application made to any of your branches or to Head Office is declined without its coming before the Executive Committee?—Well, the Branch Manager has authority to decline an application. If somebody comes in with an application that he does not consider worth submitting he has power to refuse it. He would not submit an application that he deemed unworthy or frivolous.

888. But no application made to Head Office is turned down without being submitted to the Executive Committee?—That is so; every application, big or little, before it is rejected must be submitted to the Executive Committee.

889. What I should like to have from you is some indication of the character of the applications and the considerations which move you in dealing with them?—In the first place, the sort of applications that we should most favourably consider would be those from our trading customers who want temporary accommodation in connection with their ordinary in and out business—not applications for capital expenditure but just temporary advances that in the course of a few weeks or possibly a few months would liquidate themselves. That would be the sort of application to which we should give first consideration. If we had an application to find money for a customer for capital expenditure we should not be quite so favourably disposed to that, but we should not turn it down altogether. It would depend, perhaps, on whether the business was such that it seemed to us that it was reasonable that the additional capital money should be put into it, and that the business would make proper use of the capital. and also that we could see how we were going to get the money back. What we have to avoid is getting into businesses that entail a lock up of our funds. We have to remember that all our funds are repayable on demand, and we must not get into a permanent lock up; therefore when we advance to a customer for capital expenditure we want to be pretty well satisfied how we are going to be repaid.

890. We are dealing now with advances, not with investments?—This is advances to customers.

891. You do not want the money to be permanently locked up?—If we had an application for an advance against the mortgage of an estate, that is not business that we should look upon as our legitimate business. If a customer wanted money to develop an estate, to cut roads, and to build houses and shops, and when those houses and shops were built to sell them and repay the bank, that would be a perfectly legitimate transaction for us to entertain, but we should want to be satisfied that there was likely to be a demand for the houses and shops when they were built. We always keep before us the importance of seeing how the money is coming back to us. Very often we are asked to make advances to customers whose business is suffering from trade depression, to help them to tide over until conditions improve. Of course, those are applications that we should treat with a very great deal of sympathetic consideration, but we should not always grant them. In the first place, we should want to be satisfied that the business had in the past been a successful business, and that there was nothing that would, so far as we could see, prevent its being a successful business in the future, when we got back to more normal conditions. If we assisted in a case of that kind we might possibly have to impose certain conditions; we might have to have an investigation made of the customer's business transactions, to satisfy ourselves whether there was anything that accounted for the fact that he had been losing money, or whether it was just the effect of the depressed condition of the trade. We might have to impose conditions which in our view were necessary in order to ensure that the business should be conducted on good lines after our money had been lent. Well, that deals mainly with our trade advances, the larger trade advances. Of course we are very very often asked to lend money for Stock Exchange purposes. In the ordinary way we have lent to members of the Stock Exchange against marketable securities anything from £8,000,000 to £12,000,000, and we like to keep our Stock Exchange advances within those limits. If there is great activity on the Stock Exchange we are very often pressed to exceed those limits, and in that case we very often have to cut down the amount and agree to lend a smaller amount than is asked for. If we were asked to lend to a private individual speculating on the Stock Exchange we should generally refuse to do it. I say " generally," because we should not in all cases. If an important customer who had had an account with us for a long time came to us and asked us to lend a reasonable sum for a reasonable time against good security we should lend it, but it is not the class of business that we want to do, and we try to get out of it if we can. We do not discriminate against advances which are unsecured; we are just as ready to lend to a customer without any security as we are to lend against collateral, provided we are satisfied as to the ability of our customer to repay the amount. If he were a trading customer we might ask to see his balance sheet for a number of years, or make other investigation as to the business he was doing, and if we were satisfied we should be just as ready to lend without security as with.

892. Could you give us any general indication as to the extent to which your advances are secured and unsecured?—I am afraid I could not, without making close investigation. I should say, generally speaking, the advances in London are on the secured basis; in the Provinces probably about half of them are unsecured.

893. *Sir Thomas Allen*: That would apply, principally, I presume, to the temporary accommodation given to your customers that you referred to as the most desirable?—Yes.

894. *Mr. Keynes*: What would be your policy in lending to finance houses and insurance companies?—Well, it is a class of business that we do not encourage. There again we must be guided by the circumstances. Very often insurance companies have large revenues coming in at certain times of the year, and they want to make investments in anticipation of the revenues, and temporarily they borrow from us. That would be a perfectly legitimate business, and we should do it without a moment's hesitation, but for the purpose of lending money against shares which are going to be made marketable, but which are not marketable at present, something in the air, we do not hesitate to turn down that business, even though it may entail a certain loss of business in consequence.

895. *Sir Thomas Allen*: You spoke of bad debts incurred. Can you indicate to us what percentage they would bear to your total business?—Very small.

896. *Mr. Tulloch*: A remark that you made suggested to me that, having regard to the relation between your proportions, you sometimes have to restrict your advances. Is that frequent? Have you many applications, which you find it necessary to turn down, in view of the proportion of your advances, or do you find it necessary to call in in advance?—At present our percentage of advances is considerably above what we consider is the desirable percentage. Consequently when an application comes in which is of the least desirable sort we should immediately turn it down. Sometimes even advances which might be in all other respects perfectly desirable, and business which we should like to do, we are compelled to decline as our advances are already high enough. We should probably refuse to do new business at all. We should not take an account from another bank when our advances did not warrant our doing it, and even to our old customers we sometimes have to say " We cannot give you what you want."

897. *Chairman*: I think we should follow this up, Mr. Tulloch. This is really the most critical part of Mr. Hyde's evidence. If your position is that you find you are up to the hilt, so to speak—in the present case you are up to 58 per cent.—and if a meritorious application is made to you which, if granted, would bring you above the 58 per cent. you would have to decline it at once? Although it may be a class of business that you desire to encourage, you are precluded from doing so by the fact that you have already lent up to the hilt?—We should have to be guided by the circumstances. We have a very large amount of advances which are liquidating themselves every week, therefore we should make a choice of which one we should turn down. If there were something that badly needed our assistance we would give it, and turn down something that did not want it so badly.

898. The point is this: Certain quite meritorious proposals that might result in development of business have perforce to be turned down because you have lent up to the hilt? You cannot help yourself?—That is so.

899. What I want to get at is this: Is there no means by which that state of matters might be redressed?—Well, we have to be guided by the position of our deposits. It may be said, " If you want to keep your advances at 55 per cent. how is it you have let them get up to 58 per cent.? "

900. I quite understand that in a period of exceptional stress you may have found it necessary to exceed the limit?—That is partly the reason, but there is also another reason. At certain times, owing to the quantity of money that is available, the banks are very full of money, and have plenty of money to lend, and their deposits are growing, and then a change comes along and instead of having sufficient money as the base of our edifice, there is a shortage; then our deposits will naturally shrink. Let me explain what I mean. At certain seasons of the year money comes out from the Bank of England by reason of the Government borrowings, or possibly by the Bank of England entering into certain transactions which put more money into the market. That money when it comes into the market increases our cash. We, in common with the other banks, get our share of whatever money comes into the market. When we lend that money, or when we employ it in buying bills, or investments, or whatever else we do, the money is still in the market. That is, we lend it to A and A pays it to B, and B pays it back to us again; so we have increased our advances, but we have also increased our deposits, and if that additional abundance of money remains in the market as a base for a little time the deposits of the joint stock banks in the aggregate will increase to about nine or ten times the amount of the additional money that is at their disposal as their cash base. Now then, suppose that after the market has had the use of that money, and after the banks have built up their deposits on that base, something happens to withdraw it from the market; there is a shortage of money, and in order to keep up our 11 per cent. we have to begin to curtail our bills, and curtail our loans to the money market, which means we are pulling our deposits down all the time. The bills which we hold, which are paid to us, are paid to us either out of our own or somebody else's deposits, and therefore as the bills come down on the assets side of the balance sheet the deposits will come down on the liabilities side.

901. It therefore appears that in certain circumstances however willing you are to meet demands for credit you are not able to comply with those demands?—That is so.

902. That is to say, some very meritorious applications have to be turned down from time to time. That must be because the quantity of credit at your disposal is inadequate?—Yes.

903. Is that determined in turn by the general market position?—Well, it is determined practically by the cash created by the Bank of England. You see our cash, to a great extent, represents the balance that we keep at the Bank of England. When you look at the Bank of England weekly return you will see on the liabilities side the bankers' balances and on the assets side you will see the advances to the market, or advances to the Government, or Government securities. Now, if for any reason the Bank of England increase their holding of Government securities, or increase their advances to the market, immediately that increase will be reflected in the liabilities side of the Bank of England Statement as an increase in the bankers' balances.

904. May I take it that your capacity to meet the demand for credit expands or contracts in sympathy with the operations of the Bank of England?—Yes.

905. Over which you have not control?—That is so.

906. The operations of the Bank of England, as the Central Bank responsible of course for the ultimate supply of credit, affect you as the distributor of credit?—It affects our base, and as we are always striving to keep 11 per cent. of cash against deposits, if you increase the total of cash by £1,000,000 we should go on lending or buying bills until we have increased the deposits by £9,000,000, and the £1,000,000 has been absorbed. We should do that unless something were to happen to stop us from doing it. That is to say that our desire to keep our funds employed will always mean that we shall go on with our operations so long as we have a surplus to deal with. When we lend that surplus it does not destroy that surplus; it comes back to us, taking the banks as a whole, from some other quarter; so we have still got it to lend, but we have only nine-tenths instead of ten-tenths, and next time we have only eight-tenths instead of nine-tenths, and so it goes on, until we have reached a figure nine or ten times the original cash base. If you have a large increase in the cash base at one period which remains for a long enough time to allow it to operate—if it simply comes and goes in

the course of a few days nothing happens; you cannot get your advances to trade up and down—if it continues for a sufficient time, the operation will mean that ten times the amount of that additional cash will figure as additional deposits and five times that additional cash will represent additional advances to trade. That does not happen all at once, but it happens over a short period if the excess cash is allowed to remain sufficiently long to operate to its full extent. That means that you have now increased your advances by £5,000,000 and you have increased your deposits by £10,000,000, we will say. A change occurs, and that surplus money disappears. Now, you have got less than 11 per cent. of cash, and in order to get back your 11 per cent. you call in money from the market. The operation of calling that money in to begin with is that somebody else finds it. It may be that in the last resort the man to whom you have lent the money will have to go to the Bank of England and borrow it, which again supplies the base. If he did not go to the Bank of England he would have to go to somebody else in the market, and the operation would continue until you had reduced the deposits by the £10,000,000 that you had increased them by—assuming that they did not go to the Bank of England. Your deposits are down £10,000,000 but your advances are up £5,000,000, and instead of getting 55 per cent. you have 58 per cent. and that is the position to-day. So while some part of the additional 3 per cent. over our normal ratio represents our desire to accommodate customers, part of it represents the fact that at some time in the past our deposits were on a higher plane and we let out part of them to trade and we cannot now, without putting trade to considerable difficulty and inconvenience, get it back from trade immediately. It has got to be a slow process.

907. I should conceive—if I may for the moment put myself in your position—that stability would be a very important consideration. If you are going to make advances to customers which commit your funds to a very considerable extent you naturally want to keep a considerable margin?—Yes; stability is a very desirable element.

908. If your figures are going to jig up and down you may find very large discrepancies between what your accounts aim at and what they show in the relation between deposits and advances?—Yes.

909. *Mr. Keynes*: If we suppose that the base of credit was increased by £1,000,000 so that the total available for expanding your assets was increased by £9,000,000 you would actually only hold yourselves free to lend a little more than half of that in advances?—Yes.

910. The other part would consist partly of your cash, partly of loans in the call market and partly of investments?—Yes.

911. Your investments are in the main Government securities?—Yes.

912. If you buy Government securities, and no more Government securities are issued at the time, you probably have to buy them from somebody at a price?—Yes.

913. Therefore, in some way or other some amount of the other half floods the bill market?—Not necessarily. It may be that the man who sold us the Government securities may like to put his money into some other securities, a venture which may assist some trading operation. We cannot lend our money direct for capital purposes, but we can lend our money on a marketable share. The effect of lending money on a marketable share may be that we are finding money for capital purposes that we would not find in the shape of a capital advance.

914. Practically the whole of the additional call money in bills will go directly or indirectly into Treasury Bills, so will some part of the money paid for investments. If there is no increase in the supply of bills coming forward simultaneously, that will have a very serious weakening effect on the bill market?—Yes, if there are no more bills coming forward.

915. Is there any close relationship between the demand of the country for advances and the supply of bills? Can you rely upon the supply of bills coming forward *pari passu* with the demand for advances?—Only to a limited extent. Some part of the money that we employ in bills is directly helpful to home trade, but some part of it is undoubtedly assisting the carrying trade between foreign countries. Of course, it is very difficult to give a true estimate of how the bills are distributed. If you take a pile of bills and look through them you cannot tell from every bill what it does represent, but in order to get at some kind of indication I proceeded from the other side and I took out our own acceptances. We accept bills ourselves and our acceptances go into the bill market. I have analysed our own acceptances, which amount to about £17,000,000 or £18,000,000, and I have analysed how much of those represents trade in which the United Kingdom is directly concerned, that is, either imports into or exports from the United Kingdom; how much represents trade between one of the British Colonies or Dominions and a foreign country; and how much represents trade between two foreign countries in which neither this country nor the Dominions are interested in any way. The result was that I found that out of our own acceptances 35 per cent. represented either imports into or exports from Great Britain.

916. *Professor Gregory*: That covers acceptances against manufactures as well as against raw materials?—No. Nearly all our acceptances are in connection with shipments. We do not give acceptances for internal trade; we give acceptances against the movement of merchandise from one country to another. We may take it that practically 100 per cent. of our acceptances represents shipments from one country to another.

917. *Mr. Keynes*: My argument, if I may continue it, does not require that particular analysis. I am simply getting to this point: That as long as you adhere to those percentages, for every £50,000,000 additional the banks lend to industry their procedure will require them to hold perhaps an extra £20,000,000 of bills either themselves or through the call market. The supply of Treasury Bills, which is a large part of the total amount, does not fluctuate very much. Therefore, this £50,000,000 will have to be followed by drawing into the call market from the international bill market an extra £20,000,000 of bills. Is not there a danger in that we have to put the international balance against ourselves to the extent of £20,000,000 in order that the banks may have their conventional quota?—If the total money employed in bills shows an increase, it is reasonable to suppose that some proportion of that increased total represents trade in which the United Kingdom is not directly interested.

918. That may be, but those bills would otherwise be held abroad, although they might be connected with British trade. Therefore, we are drawing to the London market, in order to supply the appetite of the banks, £20,000,000 of bills which otherwise might be held in some other financial centre?—Yes.

919. Supposing you did not keep to your rigid percentage. It does not follow that you need to increase your liquid assets against the additional deposits *pari passu* with the liquid assets held against the original deposits. You could then be a little more elastic with your 55 per cent.?—Yes, but you must remember that the increased amount of deposits is just as liable to be withdrawn as the root amount. There is no reason for keeping 50 per cent. liquid against the root and 20 per cent. against the increase. You would rather aim at greater liquidity with regard to the increase than you would with regard to the established portion. The deposits are frequently withdrawn. If you take the total of the bankers' deposits at different periods you will find wide fluctuations.

920. But the actual percentage variation in one year would never exceed 10 per cent.?—No, 10 per cent. of the total would be a pretty wide amount.

921. You do not require 45 per cent. of liquid assets?—I think you do. I think you require to keep at least 45 per cent. in the form in which you can get hold of them.

922. That 55 per cent. of advances is not in part a concession to convention and appearances?—No.

923. It is your judgment as to what is the highest safety factor?—Exactly. It is one's own experience as to what is a reasonable amount to advance in the shape of trade advances.

924. It follows that if the banks as a whole advance more to industry, somebody else has to supply them with liquid assets more or less *pari passu*?—Yes.

925. *Mr. McKenna*: May I interrupt for one moment? If you advance more to industry and as a consequence more active trade ensues, would there not as a matter of fact be a greater supply of these bank bills?—Yes, unquestionably; you will increase your imports and you will also increase your exports, and automatically you will increase the volume of bills. A restricted volume of bills generally means that trade is very bad. When trade is very good you will get a greater volume of bills. (*Mr. Keynes*): I quite see you can get some relief in that way, but that you will get sufficient relief does not seem to me possible.

926. *Mr. Brand*: Would it be right to assume that if you and other members of the Big Five buy bills they must be bought from the foreigner?—No. A great many represent exports from this country and they would be bought from the manufacturers.

927. There are large investments in bills at a certain price?—Yes.

928. And if you bought a lot, the owners of those bills might buy yearlings or other short-dated Government securities?—Yes. You would get your bills generally. It would be a question of rate. I have never known a time when you could not get bills at a price.

929. *Mr. Keynes*: That price affects the foreign exchanges. It may be that the instrument of liquid capital which you have created to meet your purposes is to the advantage of trade, but it may very easily be the case that it is not. Supposing the Government is pursuing a policy of reducing the quantity of Treasury Bills, that might very easily decrease the volume of liquid securities?—I think if you decrease the very large volume of Treasury Bills the position would arise that there would be a shortage of bills. Undoubtedly, since the War, Treasury Bills have formed a very useful part of the banks' investments.

930. *Mr. Brand*: On the other hand, as the rate fell London would be used more for drawing upon?—Yes.

931. *Mr. Keynes*: The mere machinery of the banking method by insisting upon a certain percentage of liquid assets and the fluctuating margin of those liquid assets being of a semi-foreign description, the technical characteristics of the market tend to turn the balance of trade against you and weaken our gold reserve?—That is partly true.

932. *Chairman*: May I interpose? Does that mean that the operative result is that the banks may be deterred from making advances because they may not be able to acquire the concomitant liquid assets? (*Mr. Keynes*): No, I think they can always acquire the liquid assets, but the Bank of England might be driven to counteract. (*Chairman*): What is the operative deterrent to making advances? You point out that for every advance there must be a concomitant acquisition of liquid assets. (*Mr. Keynes*): The effect of what the joint stock banks are doing on the bill market is to cause the Bank of England to lose gold and, therefore, to withdraw the base of credit.—(*Witness*): Supposing you had got your supply of bills or your other liquid assets, and you had still got a margin to lend, but your advances were up to your full quota you would probably turn your attention to Government stocks, and in buying Government stocks I do not think much of that money would come back into the bill market. It would rather tend to put up the price of Government stocks and to reduce the yield from them, which would be an incentive to investors generally to seek other forms of investment that gave them the remuneration they wanted. It would rather tend to turn money into trade as capital for trade.

933. *Mr. Keynes*: Supposing the Treasury from time to time exchanged Treasury Bills for long-dated securities, for example, by taking long-dated securities for the Issue Department and issuing Treasury Bills in exchange, if they did that they could supply you with the necessary credit without there being any pressure on the foreign exchange?—Yes; we should look on the Treasury Bill as just as desirable as the trade bill, and, as you say, there is no foreign touch about the Treasury Bill.

934. But there is no evidence that Treasury Bills are let out in that way, is there?—No. The figure of Treasury Bills, I believe, is the figure which is issued by the Treasury every week.

935. If the base of credit were increased and you had to extend your quota of bills, and you found you could not do that without causing the bill rate to fall, it would be very easy for you to go to the Bank of England, and say, "We must have more bills, but we cannot do it without causing the rate to fall. Will you let us have Treasury Bills in exchange for long-dated securities out of the Issue Department"?—Yes, an increased issue of Treasury Bills would meet our requirements just as well as the increase of bills coming in from abroad.

936. *Mr. Brand*: In the £49,000,000 of bills discounted that your bank holds what proportion would represent Treasury Bills?—Most of our bills are not Treasury Bills; most are bankers' bills. We have a very large foreign connection from whom we can buy our bills, and that is why we favour bank bills rather than Treasury Bills.

937. *Mr. Newbold*: Who is the great customer for the Treasury Bill?—I do not know. I think the other banks hold more Treasury Bills than we do.

938. *Mr. McKenna*: I think by our balance sheet at the end of the year we have £15,000,000 Treasury Bills out of a total of £58,000,000 bills?—Out of about £58,000,000 or £60,000,000.

939. *Chairman*: What I want to get at in the simplest form is whether when you make additional advances you are apprehensive of the repercussion of that action in other quarters; that is to say, the possible effect, through the concomitant acquisition of liquid assets, upon the exchanges. Are you deterred by that?—We would be in practice influenced to some extent. For example, if it seemed to us that the purchase of more bills might have the effect of turning the exchanges very much against this country we should rather expect that to be followed by action on the part of the Bank of England to restrict the base, and therefore we should take care to keep our funds as liquid as possible, to meet the withdrawals which we should expect to come when they took that action.

940. And, therefore, because of the possible consequences, you might be deterred from making advances which you would otherwise make? (*Mr. Keynes*): If the Bank of England were to persuade the Treasury to let Treasury Bills out of the Issue Department whenever there was a shortage of bills . . . (*Chairman*): That is a question of remedy, but the symptom at the moment is that the Midland Bank may find itself deterred from taking a course of action which it might otherwise take, and which might be to the advantage of industry, because that course might have repercussion upon the foreign exchanges, which in turn would be one of the considerations which the Bank of England would have to take into account in fixing Bank Rate. Therefore you might have a series of effects which might

be disadvantageous to the general interests, and the thought of the ultimate consequence might deter you from making advances which you otherwise would make?—Yes.

941. *Professor Gregory*: Is that a point that you seriously take into consideration? When you have an increase of, say, £1,000,000 in deposits and you spend £450,000 in buying bills, do you seriously consider the effect on the exchanges?—Certainly. It is one of the points we have constantly in mind. It is one of the most fundamental things which will affect our figures. We know that anything that will cause the Bank of England to take restrictive action will be reflected in our figures.

942. May I ask why you, as distinct from other banks, hold such a small proportion of Treasury Bills? Why do you invest primarily in bank bills?—Because bank bills are just as good for our purpose. In both cases when they are paid they will be paid out of deposits. If Treasury Bills are paid they will be paid by the Government out of the proceeds of taxation, which comes out of the banks' deposits. In either case it comes out of your deposits. The ultimate effect is the same.

943. That is clearly so, but what determines the bank to hold bank bills rather than Treasury Bills?—Because we have a very large amount of foreign business, and we can buy those bills better than we can buy in the open market.

944. *Mr. Brand*: May I ask a question? I suppose it would be the case that your bank, if it got a request for an advance where there was no possible risk, would grant the application? You would seldom refuse it?—Yes, we would refuse it, if our advances were already up to a point where we considered they were as high as we thought they should go.

945. Would you not say "We will cut some other advance out"?—No; we should say "58 per cent.! This has got to be turned down."

946. Even if he were a very good customer, and he said he would go to another bank instead?—I do not think that would weigh with us for a moment.

947. *Mr. Newbold*: I should like to have a continuation of the percentages of different classes of acceptances of the Midland Bank.—I gave you the figure of 35 per cent. that represented imports into or exports from the United Kingdom. 24 per cent. represented imports into or exports from colonies from or to foreign countries and 41 per cent. represented trade in which only foreign countries were interested. Of course, that 41 per cent. again represents the carrying trade, and that is a very important factor to this country, because this country is the principal carrying country.

948. Have you any idea what would be the percentage actually carried in British bottoms?—That I could not tell you. It would depend on the commodities; they represent all sorts of commodities; there is no commodity that is shipped anywhere that you can think of that is not financed by a bill on London; therefore you have got to average all sorts of commodities. The freight might be an important element in it.

949. *Mr. Brand*: What does your bank get out of that 41 per cent.?—In our case we should get our acceptance commission.

950. What is your acceptance commission?—In the normal way one-eighth per cent.

951. *Mr. Newbold*: What does the country get?—The country gets the taxes on our profits, unfortunately.

952. Anything else?—Well, they get the added trade. That is one advantage in being the banking centre of the world.

953. I am not disputing it?—No. I would like to put this to you, the advantage of being the banking centre of the world is that there is a tendency for money to concentrate in London. The total of the deposits that we have from foreign banks, the total money that is placed in London, that can be used in London, is more than twice the total of all our advances and all our acceptances to foreign banks put together. So on balance we get a considerable sum that is being used in advances to home trade—home customers.

954. *Sir Walter Raine*: Does that apply to all the banks?—I am speaking of our own bank; I cannot tell you the position of the other banks.

955. *Chairman*: I gather you do not make advances or grant accepting facilities direct to foreign traders?—No, we deal with the banks.

956. And the amount you have given us is the amount of the credit of those foreign banks in your books here?—Yes, we do not deal with foreign merchants. We are a bankers' bank.

957. Those banks keep in your books a considerable credit?—They keep twice as much as we accept or lend to all our foreign connections put together.

958. And those sums that you keep to the credit of these foreign banks in your books are available to you for the purpose of assisting industry in this country?—Yes.

959. And in point of fact the position is that the amount they have here to their credit is far in excess, you think double . . .?—Just about double what we accept altogether, or what we lend to them in short advances. We do not make term loans to banks abroad; if a bank came to us and asked for a loan for three months we should say "No, you can overdraw with us pending the receipt of remittances, but your remittances must be on the way." The total of all our foreign advances plus acceptances—which includes a great deal of trade which is semi-British trade; there is England at one end—if you doubled that; it would just about equal the money we get from our foreign connections which is used in all our business, and 55 per cent. of it gets lent to trade.

960. So on balance this foreign business of yours really redounds to the credit of our industry?—Absolutely.

961. And the fact that you have this amount of credit is due to the fact, is it, that London is a magnet for money?—Yes.

962. *Mr. Brand*: What is the reason of that?—The effect of all settlements being made in London is that London becomes the bank, and, just as the ordinary individual likes to keep a balance with his bank to meet any calls that may be made upon him, so the foreign bank likes to keep a balance to its credit with London. The fact of London being the bank means that you always have a large amount of foreign credit.

963. *Mr. Newbold*: Do you see any sign of London losing that position?—There is a good deal of competition. New York has tried very hard to attract that kind of business.

964. Not very successfully?—Oh! New York has worked up a foreign market since the War which is very considerable compared with what it was before the War, and we are told that Paris is doing the same thing. Whether she will be successful or not I do not know. At the moment I would say the two big markets are London and New York; of the two London is the bigger. Berlin is a market to some extent, and Amsterdam, but they are small compared with London. London is the bank for the Continent and the East; New York is tending to become the bank for America and the West; but I should say New York has got a long way to go before she catches up to London.

965. *Mr. Lubbock*: I have before me your Statement of Accounts at 30th June, in which the cash is shown as £39,000,000 odd. Supposing on the 1st July, when you made up your books, you found you had, say, £42,000,000 in round figures, which would leave your cash proportion 12 per cent. instead of 11. Your proportion of advances is 58.6. Would that additional cash enable you to make fresh advances, or would you say "Here is an opportunity of getting our advances down to 55"?—No. On the 1st July, when we got that figure, we should know approximately whether it had come in in the shape

of the liquidation of existing advances, whether it had come in in the shape of deposits. To begin with, on the 1st July we should say "We do not know whether we shall be able to retain this money to-morrow; it may go overnight! We should like to feel that it was with us for a little more than one day before we began to disturb our policy."

966. May we assume that the increase of your cash is permanent? Let us assume that the Bank of England has been buying Treasury Bills to a certain extent, of which you have knowledge, and you find your cash £42,000,000?—When we got our Balance Sheet at the end of the week we should find that our total of bills and call money is higher than what we look upon as the figure we want to keep it at.

967. Assuming that you have lent that money out?—Assuming that we have lent that money in the meantime in the purchase of bills, or in overnight money to the brokers, the total of those items will now give us more than the percentage that we are looking for for these particular lines, and, therefore, we should say "We need not be so restrictive in turning down advances. We can be a little more liberal in passing advances than last week, because we have more money."

968. Have you a fairly continuous series of applications for advances which would enable you to get the money out?—Oh! yes. Every day we have to exercise discrimination in every application that comes forward. So long as advances are at a high figure we have seriously to consider the position, and use our discretion, and we may have to say "On the whole we think we ought to turn this down." There might be 11 reasons out of the 12 why we should pass this, and if we had more money we would pass it, but the fact of having the advances at a high level would determine us to reject that application.

969. Supposing you have at the moment a very great amount of excess cash which looks as if it were likely to be permanent you would put it into the short term market?—Yes, provided we were satisfied it was permanent cash.

970. With reference to the point that Mr. Keynes made as to the effect that that would have on the short term market and exchanges, might it not be temporary?—Temporarily it might have the effect of depressing the exchange somewhat. I should think it probably would. The fact of our going out as large buyers of bills in the market would mean that the bill rate would fall and the exchange would fall in an unfavourable direction, but in the course of a week that would begin to correct itself, because, to begin with, the money tends all to go into the short money market, and in the course of a further period some of the money tends to come out of the short money market and go into the more permanent advances.

971. It might meanwhile have an effect on gold exports?—It might or, on the other hand, it might have the effect of bringing the exchanges down to near the gold point, but at a later stage when the money began to go into the freer lending and to come out of the short money market it would have the opposite effect of tightening the bill rate up a bit.

972. *Mr. Brand*: And I suppose the effect that Mr. Keynes has pointed out would follow whether you buy bills or lend out money at call?—It would make no difference.

973. Therefore, you would have to stop both?—We cannot afford to keep money idle.

974. It would be no good stopping the purchase of Treasury Bills if instead you lent the money at call?—If we lent money at call we should not have to buy Treasury Bills.

975. You would still have to keep up the proportion?—Yes. If we could buy bills more favourably than money at call we should buy bills, and the thing would right itself because the market would get less anxious and be ready to buy bills.

976. *Mr. Newbold*: Could we have any idea of the duration of your advances, say, to commerce or to industry. How long do you tie up your advances?—We should not tie them up in the ordinary way. If we were satisfied that the advance was going to liquidate itself within a reasonable time——

977. What do you call a reasonable time?—It depends on the advance. If we were to make an advance of £10,000 and the customer said, "I can see that I shall be able to repay £3,000 this year, £3,000 next year and £3,000 the following year," we should consider that reasonable. It would depend on circumstances; you cannot lay down a general rule, you have to take each case on its merits and see whether it is a reasonable proposition.

978. It seems to me there is a very fine line dividing lending on an easily marketable share and an actual investment in industry?—Well, not altogether. What I call a very desirable advance for a bank to make is one that supplies the demand for a season. Possibly a trade has to buy its materials at a particular time in the year because there is a time when the harvest in that particular commodity occurs and the sale is spread out over a long period; so it might be that you would lend a customer £10,000 because he had got to make his purchases, say, in November, and he would be selling to other industries during the succeeding six months and by May the account might be in credit again. That is the sort of advance that is essentially a banker's advance.

979. You know the statement is very current in this country that certain industries are thoroughly in the hands of the banks. Whether that is true or not we are very anxious to ascertain. If you have made very lengthy advances, shall we say, to the steel industry or to the cotton industry or to the coal industry, you have virtually become the investors in that industry?—I do not think it would be fair to say that any industry is in the hands of a bank.

980. Let us say in the hands of the banks.—It may be that certain industries have borrowed a great deal more from the banks than is good for them. I would instance the cotton industry. No doubt the banks have been anxious to tide their customers over a difficult time. I should say if you were to compare the amount of money lent by banks to cotton mills at the present time with the amount that was lent, say, when the cotton boom was over, after all those reconstructions—in our case at all events I know it is so—the cotton mills as a whole in 1923 at the end of the boom had large credit balances with us, and now the accounts are on the other side and they owe us money.

981. *Chairman*: Do you find yourselves insensibly passing the line between a bank's legitimate business and the position that Mr. Newbold puts, of being investors? You may embark first of all upon a course of business with a customer which is pure banking business. You are tiding him over the time between when he is manufacturing his goods and the time when he gets his money in, but depression overtakes that business and you find the customer is not able when the due day arrives to meet his obligations. You are sympathetic; you give him a renewal and increase the figure. May not that process result in the course of time, by this insensible addition, in your waking up some morning and finding that you have passed from being his banker to being to all intents and purposes a participator in his business?—Yes.

982. That is not what you want, but it may happen?—It may happen.

983. It may be due to your want of judgment or want of foresight in the way you have financed that particular business. That is just an instance of what might happen, but it is not what you set out to do?—That is so.

984. You may find yourself—if I may so put it—landed?—Landed.

985. *Mr. Frater Taylor*: Do your advances to customers include foreign customers?—Yes.

986. What percentage would be advances to foreign customers?—It would be a decimal point per cent.

987. Small?—Very small, practically the whole of our customers are home industries.

988. Is a substantial part of your advances to customers frozen?—No.

989. Are we looking in the Statement of Accounts at the figures including frozen advances?—You are looking there at the total amount of advances after having made full provision for bad debts.

990. There is not a very large percentage frozen? —No.

991. Are they included in the reserve?—How do you mean, the reserve?——

992. If this is a net figure here, presumably before arriving at that figure you have taken into account frozen advances?—If we value the advance at £100 it would figure in that account at £100.

993. We have been dealing with quantity. May I for a moment ask you a question on quality. You said you would lend money to an approved customer for Stock Exchange transactions, yet you would not lend for capital expenditure purposes?—That is not quite what I intended to say. I should have said we might lend for capital expenditure if we were satisfied that the business warranted the capital expenditure and if we could see that the money would be repaid to us.

994. May I state a case which is rather acutely before us to-day? If an industry that is struggling and has good prospects says to you, "We do not find it propitious to issue debentures now; will you make us a loan if we create debentures and issue them in advance pending our being able to place them on the market?"; would you make that loan?—It depends on the circumstances, as to the possibility of repayment and the general state of our advances. If a new customer came to us with such a proposition, at the present time we should probably say, "No, we do not consider the present time is favourable for making advances."

995. I am thinking of an old customer rather than a new customer.—To an old customer we should always be very sympathetic and we should try to meet him if we could if the transaction was one that seemed to be justified in every other respect.

996. In your 31st December profit and loss account I find that full provision was made for what is called rebate expenses. What are the rebate expenses?—The rebate on bills. When we buy a bill we get the interest right away up to the maturity. Say a bill is due on the 1st March and we bought it on the 31st December we get two months' interest that we have not earned and, therefore, we take off our profits the two months that we have not earned on this bill. That is the rebate on the bill.

997. I also notice that in your profit and loss account to 31st December last provision was made for Bank Premises Redemption Fund of half a million pounds.—Yes.

998. In your 31st December, 1928, balance sheet your buildings stood at £8,725,000?—Yes.

999. At 30th June last they stand at £8,719,000? —Yes.

1000. You must be spending a great deal of money on that big place you are building in Princes Street? —We have spent a great deal on that.

1001. I am just wondering if there is any money available from the bank premises for industrial purposes?—The money is being used for industrial purposes. It is employing an army of builders.

1002. That is perfectly true, but it stays there; that is the trouble.—We are not building it for amusement. We need the place.

1003. That is hardly the point. The point is this: If you put your money into the steel business it will revolve and yield profits. On the other hand, if you put it into a bank building it is frozen.—A bank must have a building that is suitable for its purpose. That is the reason why we are putting up money for buildings, not because we want to put up fine buildings, but because we need them.

1004. *Mr. Newbold*: Is it really necessary for banks to have such palaces as they have to-day? I know yours is not the worst—there are some atrocious examples.—I do not think there is a great deal of advertisement; I daresay some part is spent in advertisement; for instance, we all aim at getting something that is a credit to the City. We are all anxious not to disfigure the City of London by putting up buildings that are unworthy of the position that they are to occupy. That is a consideration with us anyway.

1005. It looks to me that you are becoming like the Americans, fond of a very glorious building?—On the contrary, we are more proud of our balance sheet than we are of fine buildings.

1006. *Mr. Lubbock*: You were saying that the loans to the cotton industry had continued much longer than you intended when they first started? —Yes.

1007. I suppose they come to a considerable volume, do they not?—A fair amount.

1008. And have you other loans of the same kind, for instance, to the shipbuilding or steel industries? —No; very small. If you want a figure for cotton I can tell you what it is.

1009. I do not want to ask you that.—It is not a large figure; compared with the total amount of advances, it is a very small figure.

1010. In the present state of the trade of the country, there must be many loans which are running on longer than was intended, and the reason they are running on is because the borrowers are not making profits?—That is so.

1011. If the borrowers were making profits your loans would be less than they are now and you would be in a position to make fresh loans?—Yes.

1012. And, therefore, the fact that industry is not making profits is a principal cause of the difficulty?—The lack of profit is at the root of the whole thing.

1013. *Chairman*: Have you in the Midland Bank made an analysis of your advances in order to see what branches of industry are represented?—Yes.

1014. It would be rather interesting if you would give us a sample of them.—I am afraid I have not the figures with me. Mr. McKenna gave the figures in his speech last year.

1015. *Mr. Lubbock*: I thought the position of cotton might be illustrative of the position of other trades?—That is one of the difficulties at the present time that advances which were perfectly legitimate at their inception are becoming more in the nature of a permanent lock up.

1016. *Chairman*: And your legitimate business is interfered with because, if the money is locked up, it is not available for general circulation?—Certainly.

1017. What we are concerned with when you tell us of a phenomenon of that sort it is to see whether we can devise a remedy. We cannot, of course, find a remedy where the industry is depressed and you find yourself compelled to renew a lock up. But in regard to the question of providing credit so as to enable you to have more freedom in making advances in cases in which you want to make advances for legitimate business but which you find you cannot undertake at the moment, have you any suggestion to make to us as to possible ways of improving or easing the situation. I imagine myself as being a banker and having a proposition put to me for improving business. A customer comes to me and says, "I want so much money to embark upon such and such an enterprise; I am sure it will be a success." You say, "I am sorry. Look at the position. 58 per cent. of advances. Nothing doing?"—Exactly.

1018. That to you must be a depressing condition because you would like to make advances if you could. Have you any idea how that situation could be eased so as to enable you to make advances?—That is one of the great problems. I wish I could tell you. I am afraid I cannot.

1019. *Mr. McKenna*: If the basis of credit were enlarged the Midland Bank would be able to lend more?—Yes.

1020. I do not put to you whether the basis should or should not be enlarged; merely the fact that if it were enlarged you could lend more?—Yes.

1021. *Professor Gregory*: I believe in an address that you gave some time ago you suggested that another remedy besides the increase of credit by the Bank of England was the attraction of small deposits to the joint stock banks?—Yes.

1022. Have you ever considered whether the volume of deposits held by the joint stock banks could not be increased if the minimum payment on current deposit were raised?—What minimum?

1023. You are paying 2 per cent. are you not, below Bank Rate on small deposits?—I do not think it makes any difference. After all, the small depositor is not attracted by the rate. I do not think we find that the small deposits increase more when there is a high Bank Rate than when there is a low Bank Rate. I think it is the other way round; when there is plenty of money made and rates are low our deposits increase more than when there is less money made and rates are high.

1024. *Mr. Tulloch*: The small depositor is not concerned with the rate?—No. Take the sort of depositors I had in mind when I was referring to them—the difference of one per cent. on a matter of £10 to £15, is negligible.

1025. *Mr. Keynes*: Would you not put it the other way round, that those people who are interested in the rate do not in present conditions place money on deposit?—That is so.

1026. *Chairman*: You do not want the banks to act as a savings bank where people put in their money permanently as an investment. If you do that you make the bank's function that of holding money rather than that of handling money?—We make our bank attractive to the little man; we do not despise the little man. In fact, we invite him; we are constantly thinking of new devices to attract him.

1027. *Mr. Newbold*: Could you not pay him more for his money?—I do not think it would benefit him or us, looking at it as a business proposition.

1028. *Chairman*: If I were told that if I put money on deposit with your bank I could get 6 per cent. I would never go to a stockbroker.—How could we pay you 6 per cent.? Would you feel that it influenced you very much if it were merely the difference between paying say, 2 or 3 per cent.?

1029. No, it would not.—I do not think that would act as a very great attraction for the small deposits such as we think present a field that banks might cultivate.

1030. For the reason that if you have that money permanently and it is not money that is deposited with you temporarily it would naturally give you a better return?—I do not think we should segregate our deposits: we should not say so much of our £300,000,000 or £400,000,000 represents small deposits and so much represents money of the character that is coming and going. We rather look at the total of our deposits.

1031. With regard to the question that Professor Gregory put, your capacity to lend does not depend on the character of your deposits?—The point I had in mind was to get more cash. If we collect the small deposits from the people and attract their £1 notes out of their pockets and get them into our tills the position would be that we should increase our basis.

1032. *Mr. Keynes*: As long as the Bank of England will not increase the base of credit it is impossible for you to increase the amount of your deposits except by collecting from other banks?—Or by getting the money out of the pockets of other people, economising the currency.

1033. You think that is not a point that is affected by the rate of interest?—I do not think so.

1034. *Sir Walter Raine*: Has the amount of deposits with the municipalities seriously affected your deposits?—Not at all, because it does not affect the base. We have always to go to the base of our deposits and our base is cash. If the municipality collects deposits from the people they have to put those deposits somewhere. It does not affect the amount of cash we have with the Bank of England or the amount we have in the tills.

1035. The small people are putting money into the municipalities in small loans?—Yes, but the municipalities do not keep that in the shape of cash and they do not keep it in the shape of a Bank of England balance. If they pay that cash to us it increases our cash or it increases our Bank of England balance. If our Bank of England balance is increased, automatically we begin to lend it, and the effect of our lending it means that it comes back to us again, and as it comes back to us we go on lending until the amount of our deposit is nine times the amount of cash. If our cash is stationary the fact that that money goes to municipal banks does not affect the total of our deposits. If the municipal banks were not there and the money came to us we should then hold less than our 11 per cent. of cash, and in our efforts to restore that percentage we should reduce loans or investments and automatically reduce our deposits.

1036. *Sir Thomas Allen*: Would you seriously maintain that the influence of the rate of interest is infinitesimal in view of what the Government have done in advertising campaigns with an attractive rate of interest? Cannot the banks do something?—Well, the banks cannot pay an interest which is not economic. They cannot afford to pay a high rate for deposits. I do not think that any increase in the rate that would be possible would materially affect the amount of deposits. That is really a subject for discussion. If you could offer 6 per cent. or 7 per cent. I think you might attract more money; but you cannot do that. The utmost you can do is to consider whether you can give an extra half per cent. Well, an extra half per cent. on £10, £15 £20 is such a negligible amount that I am sure it would not be an attraction.

1037. But the effect is cumulative over many millions of people. Small sums of £10, £15, or £20 over many millions of people might conceivably do something to help industry. If we could get a campaign to raise capital for industry just as we had a campaign to raise capital to carry on the War, do you not think it would be helpful? Every pound invested in industry at the present moment must be of value, not merely from the point of view of the industry itself, but from the point of view of every conceivable national interest. (*Chairman*): Do you think such a campaign would be of advantage?—I do not quite understand the sort of campaign that you have in mind.

1038. *Sir Thomas Allen*: We want capital for industry in its present condition. We want to get going in this country. Industry says it cannot move for want of capital. There is something wrong either in our banking system or in our financial system or in our national system. What we want is to discover ways and means through this Committee, if possible, of suggesting some method by which we can get along. (*Chairman*): The question arises whether there are untapped sources at the present moment either in the pockets or in the accounts of the people of this country which might be mobilised. That is really your point, is it not? (*Sir Thomas Allen*): It is more than that. As to whether the receipts from sources already tapped are misapplied. (*Chairman*): Yes, but for this present purpose you are suggesting that there are sources which might be drawn upon by the attraction of a better return on deposits. It is all a question whether, in the present depressed state of business in this country, there are sources untapped to any great extent. (*Mr. Newbold*): Is it not a fact that whichever way the money is spent, whether it is lodged as a deposit or whether it is paid over the counter for a bottle of beer, in the end the money comes back to the banks. They have got to the position where they can do that and I suppose all is well with them?—If you can reduce the amount of money in circulation and concentrate that money in the banks undoubtedly you have the basis on which you can make further advances to industry. Whether the banks are doing all they can do in making those advances I cannot say. I can say the Midland Bank do their best to collect that money. If we thought a little higher rate of interest was advantageous we should very seriously consider it.

1039. *Mr. Newbold*: Something near 18 per cent.?—I do not think we should offer 18 per cent. or anything near it. I do not think that the rate of interest is a factor in the collection of that money. I can assure you we have many hundreds of thousands of small customers on our books as a result of our campaign in that direction. We are doing the utmost we can.

1040. *Sir Walter Raine*: In your opinion, is there really too much money in circulation in the pockets of the people?—I am afraid there is more than there need be. I plead guilty myself. I carry much more money in my pocket now than I did before the War. I think the £1 note is a much more convenient form.

1041. *Mr. Tulloch*: You must consider the increase in prices.—Yes, the tendency is to carry more.

1042. *Sir Walter Raine*: Of course, prices are higher. I am not asking about a million or so, but do you think that, generally speaking, there is too much in circulation, having regard to the altered value of money, compared with pre-War days?—I think there is a field there worth exploring.

1043. *Mr. Keynes*: You mean that if you had those notes in your till you would have a basis for credit?—Oh, yes, if we had those notes in our till they would then be a basis for advances.

1044. Then the amount of credit the Bank of England could create would be diminished?—No, they would not go to the Bank of England.

1045. If the normal note issue were reduced the normal fiduciary issue would be reduced by an equal amount?—I think it would be very detrimental if you reduced the fiduciary issue.

1046. *Sir Walter Raine*: Is it not the fact that towards holiday times and Christmas there are great drawings on the note issue?—Tremendous.

1047. Does not that rather disprove that there is too much money in circulation having regard to the altered value of money?—I should think it is an indication that too much money is being spent on amusement, and in the holiday season there is a still further increase over what is really necessary.

1048. But the money taken at Christmas is presumably for the purpose of presents and luxuries such as people gave ordinarily even before the War. You have found recently in the Bank of England statement £7,000,000 increase in the note circulation, £8,000,000, and so on. Taking that over 4 or 5 weeks prior to Christmas, does not that rather disprove your statement? (*Mr. Newbold*): Surely that money, if it is expended, comes back?—While it is in circulation, it is not in the bank. When it is back in the bank it is doing good service.

1049. *Mr. Keynes*: I would like to ask Mr. Hyde whether he sees any objection to certain figures being supplied. If he does not see any objection perhaps we could have them at a later stage. The first figure is that of the balances held for foreign customers and bills bought on their behalf, so that one would have an index of the amount of foreign money on short term in London. Is there any objection?—I see no objection. I do not think we should want to publish our figures to excite the cupidity of our competitors.

1050. You would have no objection to sending your figures in to the Bank of England to be pooled by them?—Not the slightest.

1051. You give in a lump sum your balances with the Bank of England and your holding of notes. Would there be any objection to stating those separately?—I do not think there would be any objection. You mean in our balance sheet? There would be no objection to communicating with you and telling you what each was.

1052. Would there be any objection to stating them separately in your monthly statements?—I do not think I should advocate that.

1053. Why not?—Because I do not see the object of it, and I think it would be more useful to keep that to ourselves.

1054. The object would be so that we could see the actual amount of notes in the hands of the public.—Supposing there was a feeling of very great uneasiness with regard to the banks in a particular area of the country and money was being withdrawn. It is our practice to keep money in various centres to meet emergencies of that kind; if such an emergency arose, as it did arise at the beginning of the War, I do not think it would restore public confidence if those figures were disclosed.

1055. You could replenish your aggregate figure at ten minutes' notice?—But if we take the money out of the Bank of England it figures next week in the bank's statement.

1056. I am only saying that if you put in your monthly statement your holding of notes separately from your Bank of England balances it would be possible to calculate the amount of notes in the hands of the public. I do not see what injury it would do you. (*Mr. McKenna*): Would not Mr. Keynes get what he wants if all the banks communicated to the Bank of England the amount of currency notes they held?—I see no objection to that.

1057. *Mr. McKenna*: That would apply to all the banks. (*Mr. Keynes*): I do not understand Mr. Hyde's objection. (*Mr. McKenna*): Would that meet your purpose, would not that suit you if the Bank of England published the aggregate holding of currency notes by all the banks? (*Mr. Keynes*): Yes, that would do. (*Witness*): I do not see any objection.

1058. *Mr. Keynes*: You lump together the money at call from the money market day by day with the money lent to the Stock Exchange?—Yes.

1059. Would there be any objection to separating those publicly?—You mean in our monthly figures. I do not see any object in subdividing our balance sheet. I think we already give sufficient indication of the nature of our assets to meet any reasonable requirements.

1060. It enables a scientific investigation to be made. In the United States it is customary to give that information monthly?—Practically the whole of the call money in the United States is loans to the Stock Exchange.

1061. Is there any reason why we should not have the advantage of that information here?—In the aggregate I see no objection at all. I do not know that we want to disclose too much of our individual business to competitors.

1062. *Mr. McKenna*: Mr. Hyde would have no objection to the Bank of England disclosing the totals.—Or to a Government department, but it should not be disclosed in detail. You may not desire to disclose to other banks the precise amounts of Stock Exchange business that you do.

1063. *Mr. Keynes*: Supposing one bank has lent a great deal more money to the Stock Exchange than other banks do, is it desirable from the point of view of the public to hush that up?—From the point of view of the public I should say it is not a matter that concerns the public. If a bank has a larger proportion of Stock Exchange business than its neighbours it would be expected to lend more to the Stock Exchange than its neighbours. I should see no objection to the total being disclosed in the form of aggregate figures of the banks, but I do think it is undesirable to disclose the individual figures of individual banks.

1064. You have lumped together Treasury Bills and commercial bills. Is there any objection to stating those separately?—Not the slightest. In the statement we send every month to the clearing house we actually do give them that information. That is already given in detail.

1065. Then you lump together the total of overdrafts with the total of advances?—They are absolutely the same. If a man likes to take an advance by way of loan, or if he likes to overdraw his account, it makes no difference.

1066. I am thinking not of changes from month to month, but from year to year; if the overdraft system is increasing that enables the public to economise their balances. Do you not think it would be advisable for the banks to publish once a year a separate total of overdrafts and loans?—I do not see any point in it, because the operation is exactly the same. You cannot say because a man has taken a loan, therefore he has got a credit balance on the other side. Whether you call it a loan or an overdraft it is exactly the same.

1067. If the overdraft system prevails customers will generally keep less on current account?—I should say that the overdraft system with our trading customers is very largely supplanting the old system of making loans of fixed amounts for fixed periods. The old idea that you have to keep £500 on current account if you have a £5,000 loan is already exploded.

1068. Do you see any objection to the total volume of acceptances being published? At present I think the banks do publish their acceptances, but there are no statistics in the hands of the Bank of England or anyone as to the total volume of acceptances.—That would be a matter for the private accepting houses. I do not know whether they would have any objection.

1069. Here again in the United States there is a monthly figure published of the volume of acceptances outstanding.—(*Witness*): Perhaps Mr. Brand would tell us whether there is any objection? (*Mr. Brand*): I should not think that there would be any objection.

1070. *Mr. Keynes*: Current account and fixed deposits you lump together in your monthly statement, but you separate them in your magazine. Is there any reason why they should not be separated in the monthly statement?—I see no objection.

1071. I think that about half of your deposits are fixed. But you also pay interest on a large proportion of your current accounts?—Oh, yes; a good many of our current accounts carry interest at a low rate. The account has got to be remunerative to the bank; that is the principle. If we lend on current account we want a commission; if a man is willing to leave a balance with us and the balance is sufficient we should work it without commission.

1072. Is it a prevailing practice to allow interest on current account, on a remunerative account?—In London the general practice is to work the account free without commission and keep a sufficient balance. In the country the practice is to allow a small rate of interest—you cannot allow much on current account, but you allow a small rate of interest—and charge a commission for keeping the account.

1073. Is the commission based on the number of ledger pages occupied?—No, it is generally based on the amount of the turnover. The total amount paid out on the debit side of the account during the year is what you base it on as a rule.

1074. It is on the face value of the cheques rather than of the number of cheques handled?—In some cases. It is very difficult to set a general rule because there are hundreds of different arrangements you may have to make.

1075. If you had a private account and charged by the number of ledger pages occupied what would it work out at per cheque handled?—I cannot tell you.

1076. Would it be possible to work that out?—I think it might be possible, but I do not know how you would do it. It would be very troublesome.

1077. *Mr. McKenna*: It is a fact, is it not, that you charge different rates of commission?—Yes; according to the nature of the account. An account that has a very large number of small transactions we should charge at a higher rate than an account with a few big transactions. We have to consider what our expenses are, and that is what we aim at.

1078. *Mr. Keynes*: What is a proper remuneration per cheque handled?—I do not think you can base it on per cheque handled. It is no more right to base it on per cheque handled than on per pound note paid into the account. You have to look at the account as a whole. You may do hundreds of things, some of which are very costly, and some of which you have to provide special departments to facilitate, and in other cases it may be simply handling cheques. You have to look at whether it pays you, and if it does not pay you, you let one of your competitors have it.

1079. You have no idea what would be a proper remuneration per cheque handled?—No.

1080. *Mr. McKenna*: Would it not be misleading if you did that, because you render a great many other services to customers? A customer may want coupons collected, and so on, and if you charged them a flat rate per cheque you would not cover that?—No; you could not base it per cheque. As Mr. McKenna says, you might base it on coupons collected, and for some customers you do not collect them.

1081. *Mr. Keynes*: It is a very common custom to charge a fee and then a small amount for keeping the ledger account?—That is a system that prevails in certain places, and it is a method adopted to give you an idea whether the account is remunerative, but you have to look at the result—whether the result is to give you such sum as will pay you to keep the account. That is what you have to look at—whether the account is paying you.

1082. *Sir Thomas Allen*: And that has to be obtained by ascertaining the average value?—Possibly. All sorts of things.

1083. *Mr. Newbold*: I would like to ask whether in any instance when you have been creditors of a concern for any length of time you have required to have representation on the board of that concern?—Well, we are not fond of having representation on the board. We may put in some representative to act as supervisor, but we do not want to get on the board, because we do not want to be responsible for the policy pursued by the directors. We are bankers.

1084. I am wondering how far you have been drawn into that against your will?—We should put in a supervisor, who would keep us informed of what was going on, but not as director.

1085. A watchdog?—A watchdog.

1086. *Professor Gregory*: You say you put in a supervisor. What precisely does that mean?—He keeps us informed of what they are doing; what contracts they are taking; he goes and attends their board meetings.

1087. *Mr. Newbold*: He keeps you informed; but does he exercise a very essential pressure upon their activities?—If we want to exercise pressure we want the material to know whether we should or not. He supplies us with the material. He is not the man who would put on the pressure. The pressure would be put by us on the directors as the result of the material he supplied us with.

1088. You do not put a man there to act as a financial expert to the company?—No.

1089. Do you provide such services?—Generally speaking, no.

1090. There has been in recent years a very noticeable development of the nominee system, whereby a bank holds stock on behalf of persons whose names are not disclosed. When stock is held in that manner who votes the stock as a rule, say at an annual meeting?—When a nominee company is used in that way it is generally because the stock is pledged to the bank in advance, and the bank holds it as security for an advance to some customer.

Normally the customer would have the right of voting; the bank would not exercise it.

1091. I noticed in the case of a very big company the other day practically all the big blocks of stock were held in the name of a bank nominee company—yours, I believe, as a matter of fact—and I wondered in that case who voted the stock and who voted the members on to the board; whether it was the bank?—No; generally speaking it would be the customer. Of course, if the customer's account was giving anxiety, and the security had to be looked to by the bank, as a means of satisfying themselves they might want to exercise a little more pressure over it than they would in the case of a customer whose account was perfectly satisfactory.

1092. That development is becoming enormous?—I do not think it is. I do not think it is any more enormous than it always has been. The reason you see it more nowadays is because in recent years the banks have registered companies for the purpose of their nominees, instead of putting it in the name of one of their officials. You see, when the officials retire there is all the trouble of getting it transferred to other officials, whereas when it is in the company's name you have got it.

1093. I differ from your opinion. I have made researches since 1913, and I notice it is very greatly extended?—If you saw the stock in the name of John Jones and Tom Smith it would not convey so much as if it said the Midland Bank.

1094. In my books I have those particulars, and at the end of my book the names of your nominees, so I know who your nominees are?—I should not think the practice has increased of recent years. At any rate, I do not think it is the operation of the banks that has increased it. (*Mr. Newbold*): I do not think it is the banks' desire. Personally I do not think you have control over it.

1095. *Mr. Brand*: Capital issues of British industrial securities are generally made to the public under the aegis of one of the Big Five, are they not?—Generally speaking; the bank merely acts as the issuer.

1096. So far as the uneducated public are concerned it appears in the prospectus in large letters that Lloyds Bank, or the Midland Bank, is open to receive subscriptions. Do you think that leads the public to believe that the joint stock bank making the issue vouches in some sort of way for the issue?—Well, I think the banks have a duty to exercise reasonable care. Of course, they are not going to say "This is an issue that we recommend you to invest in". It may be a very speculative company, but if the statement is truly set out in the prospectus, and there is no attempt to deceive the public as to the real nature of the venture, I think the bank has done its duty in insisting that proper details are given.

1097. I would like to compare that method with what happens in the case of foreign issues. In the case of foreign issues whether they are good or bad, the public, I think, know that the issuing house has thoroughly studied the situation—done its best in that direction—and has pledged, to some extent, its issuing reputation on the thing turning out as it appears on the prospectus?—Well, I think if you confined the issues to issues in regard to which the banks would be prepared to say "We think this is a good thing," if you put the banks in the position of saying "This is a good thing," you would cramp the new ventures very considerably, and you would shut out a considerable number of new ventures that are quite legitimate, but on which the banks have not put a certificate.

1098. Do you think the British public ought to have more guidance as regards British industrial issues than it has at present and that for that reason another class of institution is perhaps required in London, which would vouch for industrial issues?—Do you still wish to use the banks for the purpose of making an issue?

1099. No. In that case I would merely have the bank's name, in small letters, as the bank receiving the money. You saw this year in London an immense mass of industrial issues, a lot of which were very bad. On all of them, I suppose, or very nearly all of them, the name of one of the Big Five appeared very prominently. If there were more issuing institutions issuing British industrial securities as the private issuing houses now issue foreign securities the public would know that those institutions had looked carefully into the securities concerned, and would invest in them accordingly. It seems to me that now they have no guide whatever. They all appear with the name of one of the Big Five, and some are very good and some are very bad. I agree joint stock banks look at the prospectus from some points of view, but they take no responsibility?—I quite agree.

1100. Do you not think there should be some class of institution which would take some responsibility?—I think your suggestion would be a useful one.

1101. *Mr. McKenna*: Do the Midland Bank ever refuse to make an issue?—I should think we refuse more than we accept. Of course, we do not vouch them, but we take care to be certain, as far as we can be, that we are dealing with reputable people.

1102. *Chairman*: There is no legal responsibility?—There is no legal responsibility but we do not want to go on a prospectus and then find that the scheme is unsatisfactory.

1103. *Mr. Brand*: The bad company promoter is assisted by the present procedure?—Foolish investors are undoubtedly ready to accept a thing without being satisfied whether it is right or wrong.

1104. *Chairman*: There is a danger that the unsuspecting public, seeing the name of a very reputable bank on the prospectus, may say, "Look at the name of the bank; it must be all right," not knowing that there is no responsibility attaching to the bank by its name being there?—I think there is a tendency there.

1105. *Mr. McKenna*: I think you said that you had refused more than you have accepted?—I should think we have.

1106. *Sir Walter Raine*: Would it not get over the difficulty if the Big Five agreed that a statement should be put at the top of the prospectus that while their names appeared in connection with the issue they had no responsibility, and gave no guarantees as to the *bona fides*? That would leave the public to make their own inquiries?—Yes, that would meet the situation.

1107. There is no doubt that when the name of a bank appears on these statements the public undoubtedly take the appearance of the name as indicating that the bank is responsible. (*Chairman*): That suggestion is very far reaching. You also see on a prospectus the names of very respectable solicitors. The solicitors have no responsibility. They have done their duty in ascertaining that the prospectus complies with the Companies Act, but they have no responsibility to the issuing house. (*Mr. Brand*): Would it help the British public to have a larger number of institutions who devoted themselves to industrial issues and who vouched for them?—It might be an advantage, but after all, the sort of institution that Mr. Brand has in mind has been the biggest culprit of all during the last six months. Take Corporation and General Securities which is supposed to have vouched these things and issued them to the public, and merely asked the bank to receive subscriptions.

1108. *Mr. Brand*: After all, the public must exercise discrimination. I agree they have been misled, but they will not be misled by Corporation and General Securities again?—I hope not!

1109. Do you think that the British public is better guided towards foreign issues than towards British?—I think that if, in the case of the Corporation issues that we have referred to, the public had confined themselves to a prospectus issued in the normal way by one of the banks acting on behalf of the Corporation, they would have done better than if they had acted through Corporation and General Securities.

1110. I was not referring to Corporation issues.—You mean whether it would be advantageous for all issues to be made by some recognised issuing house.

1111. That there should be more or stronger institutions in England for dealing with industrial issues.—I think the responsibility of the issuing house would have to be greater than it is to-day to be any advantage. The work could be done worse than it is at present through the bank.

1112. I do not propose that such an institution should replace you as the bank. You would remain the bank, but you should have an institution to do the work that you say you deliberately do not do at present.—That is to say, that it should be made responsible?

1113. It cannot be made legally responsible, but it would investigate thoroughly the position of the company, the merits of the issue, the security and so forth, and the British public would know that if such and such an institution issues an industrial security that process will be gone through. It is not gone through by your bank now because you do not claim to do it.—We do not claim.

1114. Do you not think it would be a good thing that it should be gone through?—(*Witness*): Yes, I think it would be advantageous to have somebody to go through it, but I do not think it is the bank's business. (*Mr. Brand*): No, no. I am not making a complaint against the banks. I am only asking whether from your experience—and you have very large experience—you think it would be a good thing.

1115. *Professor Gregory*: When you referred in your statement at the beginning of your evidence to the cases in which you found it necessary to have an investigation, did I understand that you send chartered accountants?—Possibly; we make our own investigation. We are not limited to chartered accountants. On the other hand, we might make an investigation through our own representative.

1116. You said in reply to a previous question that while you would not put anybody on the Board of a firm in which you were interested you might have a supervisor. Would he be an independent person or a member of your staff?—If we appointed somebody as supervisor he would generally be a chartered accountant.

1117. *Sir Thomas Allen*: There was one phrase that you used in opening your evidence that perhaps you might desire to modify or correct. When you indicated that the 11 per cent. cash balance was unemployed, I take it you meant unemployed so far as your own bank was concerned, but some part of it was employed by the Bank of England?—Some part would be employed and that balance would consist partly of a balance with the Bank of England which, of course, would figure among their liabilities.

1118. And would to a certain extent be employed by them?—Yes.

1119. In re-investment?—In re-investment.

1120. And that would bring you in a certain measure of interest?—We get no interest at all from the balance at the Bank of England.

1121. Would it be correct to say that you might add some part of this 11 per cent. to this 55 per cent. as being capital for investment in industry. Some portion of the balance with the Bank of England would be capital available for investment?—Yes, some part of our £40,000,000 is on deposit with the Bank of England and the Bank of England may themselves use some part of that in advances or in the discounting of bills or in other ways—some part of which again might be to the benefit of industry.

1122. My whole point is to show that the proportion in industry is much better than 58 per cent.—Well, I should say it is a little better, not much.

1123. *Mr. Lee*: If an industry is depressed, very depressed, and requires capital for rationalisation or for a new development it cannot get it from the public and it cannot get it from the banks; what is it to do?—I do not know. I am afraid I cannot answer that. (*Mr. Lee*): What is the cotton trade to do?

1124. *Sir Walter Raine*: Could you tell us if advances to colliery owners by your bank are larger than those to the cotton trade?—Oh, they are smaller. We have more interest in the cotton trade than we have in collieries.

1125. I suppose it is true to say that on the North-east coast you have had a lot of these overdrafts or these loans reduced in the last few months?—On the whole I should say that the position on the North-east coast is better than it was 12 months ago.

1126. But the situation has improved?—It has improved. There is not a great deal of improvement.

Chairman: We are very much indebted to you, Mr. Hyde. Later on, when we have had some of the criticisms that I expect we shall hear, we may possibly ask your opinion as to some of the remedies for the difficulties explained to us. Thank you.

(*The Witness withdrew.*)

(*Adjourned.*)

EIGHTH DAY.

Thursday, 23rd January, 1930.

PRESENT:

The Rt. Hon. H. P. MACMILLAN, K.C., *Chairman.*

Mr. ERNEST BEVIN.
The Rt. Hon. LORD BRADBURY, G.C.B.
The Hon. R. H. BRAND, C.M.G.
Professor T. E. GREGORY, D.Sc.
Mr. J. M. KEYNES, C.B.
Mr. LENNOX B. LEE.
Mr. CECIL LUBBOCK.
The Rt. Hon. REGINALD McKENNA.
Mr. J. T. WALTON NEWBOLD.
Sir WALTER RAINE.
Mr. J. FRATER TAYLOR.
Mr. A. A. G. TULLOCH.

Mr. G. ISMAY, *Secretary.*

Sir ROBERT M. KINDERSLEY, G.B.E., called and examined.

1127. *Chairman*: Sir Robert, it is rather superfluous to introduce you; I may just take it formally that you are a Director of Lazard Brothers and Company, Limited, Merchants in the City of London?—I am.

1128. And your Company is engaged mainly in acceptance, issuing and foreign exchange business?—That is so.

1129. I have no doubt you have had before you the Terms of Reference under which we are sitting. As you will observe we are admonished, if we can, to make practical suggestions for the assistance of industry and the diminution of unemployment. To that end we are conducting here a general investigation into the monetary and financial system of this country, and in that context we recognise the very large part which is played by persons like yourself. It would assist us very much if to-day you explained almost in an elementary fashion, if I might put it so, the nature of the business that you conduct and the part that it plays in the financial system of London. To the layman the very terms acceptance house and issuing house do not mean very much. I think you might give us in the first instance a short account of the functions which you discharge?—Yes. If I may I will deal with the subject as you say, in an elementary way, because while most of those round the table probably know all about acceptance houses there may be some who do not. I think probably the only way is to deal with it in a very elementary manner, explaining what will look, perhaps even childish to some of those round the table. If I may start off with just a short history of the beginnings of these acceptance houses: Of course, practically every acceptance house of old standing in this country commenced purely as merchants trading with foreign countries and a great many of them, most of them, I think, one may say are of foreign origin. If you take the names Goschen, Hambro, Kleinwort, and Lazard and Brandt, you can go through the whole list of them and I think you will find a very large number, the majority, are people of foreign origin.

1130. What was the reason of that? Do you think it was the superior financial intelligence of the foreigner?—I do not really know. I suppose somebody could give the reason for that. I do not quite know why it should be except perhaps that at that period the foreigner had a different type of mind to the Englishman; it was more suited to these semi-banking businesses.

1131. While the names are in so many instances foreign I take it that now the greater number of those firms have English directors?—To-day the great majority of them, of course, are of English nationality and have merged their personalities in the country. It is only the origin. I merely mention that.

1132. But the names persist at the present moment?—The names persist. If you look down the list it will give you a very definite idea. Some people might think that they are still very largely perhaps under foreign influence which, of course, is not so.

1133. *Mr. Brand*: I suppose the founders of these firms came here to do foreign business, just as the German Banks, before the War, started business in London. Germans settled here in order to do business with Germany and other Continental countries?—It was largely through the channel of these merchants that England was enabled to take such a leading part in the building of railways and other development abroad to the great advantage of our export trade, and also that London became the market and distributing centre for such a large number of raw materials and other commodities. That is of great importance to this country. That, of course, was fostered by our Free Trade system. Through these merchants also the sterling bill became the international currency of the world, and until the War the great mass of shipments of goods between one part of the world and another was financed by bills drawn on acceptance houses and banks in London. Thus London levies toll in the shape of acceptance commissions on the world's commerce—and provided she is sufficiently well paid for it, it is a great benefit to the country.

1134. *Chairman*: Are you referring there to bills which are drawn by a merchant in one part of the world outside the British Empire on a merchant in another part of the world also outside the British Empire, but which come to London?—I am referring there to goods shipped from, say, Chile to some other part of the world outside the Empire, and the bill is drawn on an acceptance house in London.

1135. It is drawn directly on the acceptance house?—Yes, and that sterling bill is dealt with in the country where the goods are shipped from.

1136. It is no doubt very elementary, but I would like to figure out what is the result of the transaction. A merchant in Chile is going to sell goods to somebody in another part of the world. He draws upon the purchaser for the amount of money——?—The purchaser gives him our name to draw upon; we lend our name to the purchaser of the goods and he pays us for the loan of that name.

1137. The step that I have not got yet is the relationship between you and the purchaser. How does the purchaser get into the transaction; how does he come in contact with you?—The purchaser is a client of ours presumably and he applies to us to open this credit for him. These goods do not touch this country and are financed by this bill on London and, as I say, London receives payment for lending the name.

1138. Lending credit?—Yes.

1139. And it is the fact that the London name is on the bill that gives value to it?—Well, yes. The buyer's credit obviously is not nearly as good as the credit of an acceptance house. It is the quality of the bill which is its virtue.

1140. Then the bill is not drawn on the buyer; it is drawn direct on the acceptance house?—It is drawn direct on the acceptance house.

1141. When such a bill is presented to you for acceptance and you agree to accept it, having received instructions beforehand, what becomes of it? —All sorts of things may become of it. The bill may have been sold, say, in Chile to a banker very likely with documents attached, with Bills of Lading, and so forth, and it comes over to us for acceptance. It is sent to us through that bank, the seller having cashed it over there, having got money for it. Then the documents, as I say, are attached to it. We accept it and hand it back to whoever brings it into the office.

1142. *Mr. Lubbock*: There is one step you have not mentioned—that the buyer of the goods has to send you money before the bill falls due?—Eventually. If it is a three months' bill, a ninety days' bill, at the end of ninety days the buyer obviously has to meet his bill. We might have parted with those documents or we might have kept them, according to the credit of the buyer. Either we should keep those documents and only let him have them against cash, or if he was a man we believed in we should release the documents and the credit would practically become a blank credit, but we should have traced the transaction and known that it was a genuine shipment of goods.

1143. *Chairman*: If you do not part with the shipping documents the purchaser of the goods cannot get delivery of the goods?—Quite, and it depends on his credit whether he has to pay before we give up the documents.

1144. Then the nature of the transaction seems to me to be merely this, that you interpose the credit of the accepting house between the seller and the buyer?—That is so.

1145. And in that way enable a system of credit between the buyer and the seller to operate, because otherwise the confidence which is necessary to allow credit might not be forthcoming. You sell the confidence?—That is so; we sell the security for payment.

1146. And for that service which hall-marks the document of credit, which is the bill, you charge a commission?—For that we charge a commission which varies according to whether, for instance, we part with the documents or not; that has a bearing, but you may take it that the commission for that type of transaction varies, according to the credit of the person who asks for it, to-day from one to one-and-a-half per cent. per annum.

1147. Do the people for whom you accept bills keep a credit with you?—Yes; the great majority of them. The great majority of the deposits of the average acceptance house consist of foreign deposits. I can only judge, of course, from my own experience in my own house; I have had the figures got out and it is evident that the great majority of one's deposits—and I think it must be so with all acceptance houses because our clients are mostly foreigners—are deposits by those clients who are using us in other directions as well.

1148. To that extent you are really like a bank. That is to say, you hold monies belonging to your clients?—Yes; we do, but, of course, our clients are fewer and their individual deposits bigger. The average acceptance house does not cater for an ordinary cheque business. Of course, we all of us have our relatives and people like that who keep accounts with us and we give them a cheque book, but, broadly speaking, we do not attempt to cater for ordinary cheque business.

1149. Is the acceptance business properly so-called entirely or largely a matter as between foreign parties; do the documents which you accept represent trade between foreigners?—No, not necessarily. I was merely giving that instance to show that all the business of the world—that is to say, quite outside the business from this country and from abroad to this country—not only do we get that, but we also get this other business which does not touch England at all, and we get from the world a remuneration for financing that trade.

1150. You do not deal with internal bills, bills representing transactions largely domestic to this country?—Entirely domestic to this country; no, I think one could say to a limited extent only.

1151. So all your transactions bring you into contact with somebody abroad?—The great majority of them bring us into contact with somebody abroad.

1152. And that means that you must have agents or correspondents throughout the world?—Throughout the world, yes. We have our own definite affiliations—for instance, in the case of our own firm, the control of which is in English hands—and we have also affiliations with Lazard Frères, of Paris, who are a French house, and Lazard Frères, of New York, and Lazard Brothers in Spain—that is a connection of the London house created by the London House—and also two branches, one in Antwerp and one in Brussels. Of course, in those countries we deal very largely with those particular firms, but we have hundreds of other affiliations throughout the world.

1153. And they, so to speak, vet the business offered?—Yes.

1154. And accordingly a bill will come to you to some extent already vetted locally. If it comes to you through one of your agents or correspondents he can tell you whether the document is one you should accept?—Yes, but practically every credit you may say is a credit upon which you take a decision yourself, except where you do reimbursement business with foreign banks. In that case you give the banks credit for them to use. The banks pass on that credit to their customers and their customers draw on you, and the banks guarantee those bills. That is very largely done; that is done on a very large scale by the joint stock banks.

1155. Then these bills which have been accepted, which we call London bills, really form a kind of international currency, do they not?—That is so.

1156. They pass from hand to hand?—They pass from hand to hand.

1157. But all that this country gets out of an acceptance transaction such as you have described, in hard cash at least, is the commission?—The commission. But insomuch as the fact that doing the business and having these foreign connections brings in its wake large foreign deposits England is not asked to finance any of those bills, it is not English money. Take my situation. My foreign deposits which I lend to the discount market, or invest in Treasury Bills, or use otherwise, are equal to the bills drawn upon me, and therefore I get a commission and London is not asked to produce any money for it because the foreign deposits which I have are sufficient to finance the bills. Of course, it comes out in the wash only.

1158. Would these foreign deposits not be made in this country were it not for the acceptance business? —I should say a very large proportion of them would not be made.

1159. Then these deposits which you use come to this country because of the acceptance business?—A large portion of them are directly due to that. As far as we are concerned all the people who deposit with us foreign monies are people for whom we are opening credits or to whom we are giving facilities. I do not say that some of those deposits would not come anyhow if the rates were right, because the discount market here is such that the freedom for short money and the facilities for short money are unequalled, of course.

1160. That is quite a distinct form of business that has grown up in London, and I take it it has grown up in London just because London is the financial centre?—Yes.

1161. And enjoys exceptional credit. Is the acceptance of foreign bills done by any other people besides the accepting houses?—The joint stock banks do, of course. Mr. McKenna knows much more about this than I do, but I venture to make this assertion, that the joint stock banks confine themselves very largely as far as foreign business is concerned to reimbursement for foreign banks. I do not say they exclusively do it, but I think the great majority of their acceptances are for that purpose, that is to say, reimbursements. As I explained just now, you give a foreign banker a credit; you open a credit for, say, half a million pounds and he can use that credit for his clients. He says to his client, "You can draw on Lazards against this bit of business," and he draws under the guarantee of the foreign bank.

1162. There would be nothing contrary to ordinary banking practice in the joint stock banks accepting a bill?—No. I am sure they do a certain amount of that business. But it has to be remembered that the acceptance business insofar as the joint stock banks are concerned is a side line, if I may use the expression. The acceptance houses, on the other hand, are there primarily to do that business; they concentrate on it and it is their first business.

1163. What strikes one, even on a preliminary survey of the London financial situation, is the degree of specialisation reached. It is a highly specialised organisation. London seems to have specialised and spread out the different functions in a way that does not seem to exist in other centres. You have separated this function of accepting and made it a speciality?—That is so with all these London accepting houses.

1164. It is a function which might be combined with banking, but which has, in London, because of the magnitude of the business, developed as a special part?—It requires a very great deal of care, a very great deal of watching, a very great deal of travelling and a very careful study of world conditions, and it is the chief business of the partners of any acceptance house. They have not got other things equally important for them to do and they have to attend to it. Therefore, they are able to take business which appears to be, and is no doubt, more risky, but they are justified in taking that risk because of their special knowledge of the business that they are doing.

1165. Are the ordinary banks to any large extent your competitors in this business?—Yes, they are competitors because we all do reimbursement business. Some of us, of course, feel that the joint stock banks have reduced the commissions to a level which is not justified. The great mass of the reimbursement business I think I am right in saying is done on a basis of one-half per cent. per annum. That is to say, they will accept a three months bill for half-a-crown. I, personally, do not believe that it is business to put your signature to a bill for one hundred pounds for half-a-crown, and, of course, the effect of that reimbursement business being done so cheaply is to break down the level of all the other commissions.

1166. *Mr. Keynes*: What is the normal rate for the other business?—It is now one to one and a half per cent. and in some cases where the risk is greater it is two per cent. It varies according to the risk. We ourselves do not accept under one per cent. for anybody, but, of course, the effect of the reimbursement business being done for one half per cent. per annum is bound to bring down the whole level of acceptance commissions, and in that way there is no doubt that London is losing, in my opinion, a big revenue from the foreigner which she ought to receive.

1167. *Chairman*: Does the reduced rate attract more business which might compensate for the less return per unit? I suppose it is very much like railways. If you reduce the fares you hope to get sufficient to recoup you from the increased number of passengers?—I think there is no doubt to a certain extent there is some business that will be attracted to London which otherwise would not come, but I do not think that that is sufficient compensation for the lower rates. Because, after all, the London market is something that the world has got to have. It has got to come here. There is New York certainly where a discount market is developing, but it is not nearly so conveniently situated for the world as a whole and its discount market is nothing approaching ours.

1168. *Mr. Keynes*: What are their charges for acceptance?—In New York, I think, for the big banks to the big banks they accept for one-half per cent. there, but otherwise their limit I think is one per cent.

1169. *Chairman*: For the kind of bill that you deal with mostly what is the rate current in New York?—About the same as ours—one to two per cent.

1170. *Lord Bradbury*: You said "now" in giving those rates. Does that mean that the present rates differ materially from the rates before the War?—I should say they are lower.

1171. *Mr. McKenna*: Lower in London?—Lower in London I should say. Before the War this question was becoming acute; I have not looked up the rates, but it is conceivable that they might have been accepting then at that figure.

1172. *Lord Bradbury*: I put the question because I observed that you said "now" on two occasions?—Yes, the level of rates has come down considerably in the last five years.

1173. Immediately after the War it was higher than it is now?—Yes.

1174. *Mr. Tulloch*: Would you say it was one-fourth and not one-eighth for a three months bill. Three years ago it was more like one-quarter than one-eighth for a three months bill?—So far as we are concerned as an acceptance house it was always one-fourth—I am speaking of the reimbursement business—but they get it for one-eighth from the joint stock banks.

1175. *Mr. McKenna*: Is it not a fact that the South American reimbursement credits were all done at one-half of one per cent. before the War, and the Scandinavian credits?—Not as far as we were concerned.

1176. The reimbursement credits?—Not as far as we were concerned.

1177. Did the banks charge more than one-half?—I just now said I thought the question had become acute as between the acceptance houses and the banks, it might have been two or three years before the War. The question of commission was discussed then.

1178. But before the War the banks were charging one-half of one per cent.?—They had come to that point; it might have been two or three years before the War.

1179. Are you aware that in America the banks sometimes charge nothing?—I have not heard of it, but I can imagine a bank under very exceptional circumstances doing it. I have not heard of it being done here.

1180. Are you aware that in America one-sixteenth has been quite a common rate?—I am fairly certain it is not.

1181. Not now, but it has been.—I have never heard of it.

1182. *Chairman*: What is the advantage or disadvantage of so cheap a rate?—Well, the rate is only cheap presumably because of the competition.

1183. *Mr. McKenna*: I think that question had better be addressed, if I may respectfully suggest it, to somebody who believes in a cheap rate.—May I say in answer to that question that if you could get agreement in the acceptance market amongst the big banks and acceptance houses I do not think there would be any difficulty in getting one per cent. You might lose a certain amount of business, but it would be very small.

1184. *Sir Walter Raine*: Can you tell me where the risk comes in in connection with these acceptances?—Supposing you part with the documents; that is what you mean?

1185. No. What I mean is this: you told us you only accepted against credit, and so in effect you are giving, as it were, a post-dated cheque on money that you already hold. Where does the risk come in for you?—I am afraid I do not follow.

1186. You are paid a commission. It may be either one-half of one per cent. or one per cent. You are paid that because you say you assume some risk. What is the risk if you are always in funds?—But we are not always in funds.

1187. *Mr. McKenna*: You are only in funds in the aggregate.—I am talking of the aggregate funds. For instance, supposing my acceptances are 7 million pounds, then I say my foreign deposits, taking an average, are probably 7 million pounds or more.

1188. *Chairman*: So you may quite well have a default in an individual case?—Very well.

1189. But it works out all right over all?—It works out over all.

1190. On that general question: If the benefit to this country is the money which comes into it from the foreigner by way of the commission paid to you, the interest of this country, I take it, would be to get as much commission as possible consistently with the business being retained. Is that so?—That is my contention—if you do not lose the business.

1191. On the other hand, would you be likely to attract more business and in the aggregate get a larger resulting fund in this country by cheapening the rate of commission?—That is very difficult to say. I do not think you would. I think we get all we are likely to get at the present rate.

1192. I understand the system under which you work quite well, as you have explained it, but how far does this acceptance of foreign bills affect industry in this country? Has it any consequential effects on our general system of credit in this country? You have told us that it brings money into the country—that there are deposits made by foreigners which you say would not otherwise be made, and the business therefore produces money which is available for various purposes in this country. Are there any consequent advantages to us?—Well, of course, it is the making of London the financial centre of the world—the fact that all these bills are drawn upon us enormously enhances the reputation of London. Also, owing to the enormous number of connections which are thereby established, and the people who use London, it brings all sorts of other business, and propositions, and suggestions to this country, and other trade.

1193. In your view is the fact that London enjoys such a unique reputation of great importance to this country?—I should say of very great importance to this country.

1194. What is the practical side of it? How does the reputation translate itself into practical benefit to the country?—It translates itself into all types of trade coming into this country—the markets for all sorts of commodities coming into this country. I think it brings in its wake a great deal of brokerage business, the handling of goods, and so on, in transit.

1195. *Mr. Newbold*: Do you think it really does bring a lot of goods into this country—actual goods, as apart from the transaction?—I think it must do that as well.

1196. Is that any benefit to the country as such, apart from the financial houses?—It naturally adds to the wealth of the country.

1197. But does it stay in the country? Supposing the financial house is very largely owned abroad?—Well, the financial houses are not very largely owned abroad. I think you will find that is not the case.

1198. What about your own case? A very considerable proportion of your stock, according to the Stock List, appears to be held by Frenchmen—Lazard Frères?—The minority.

1199. It is not a very small minority. It must have altered very substantially in the last year and a half if you are still not very largely a French house?—I am afraid I cannot give you the exact proportion, but the majority is very definitely in England. As a matter of fact in that particular regard it may interest you to know that the profits of the firm very largely remain in England, and that in the last ten years the profits have been very largely put back into the business and have remained in this country, and have not been taken by the French people.

1200. I suppose ultimately that surplus will be divided up, will it not, amongst the proprietors?—I should hope not; not as long as I am Chairman. You must remember we have to work with capital in our business, and if we distribute our capital and our means, an acceptance house especially, then we have to cut down the business we can do.

1201. It seems as though you have really very little risk to bear?—We keep the capital so that the bills shall be acceptable to the people in the market.

1202. *Mr. Brand*: Mr. Newbold said he thought there was very little risk in the acceptance business. You would not accept that view?—No, I would not accept that at all. I thought I had explained that the business that the acceptance houses do has definitely more risk attaching to it. As I say, your documents come forward, you part with your documents to your merchant, and you trust him that he does not do anything dishonest, and that he pays you at the end of the time; but that does entail considerable risk, which unfortunately at times comes home to one. At the moment I could tell you of a very serious case of fraud; a firm of absolutely first-class standing. Those are the sort of risks which you cannot guard against, and of course, if you are going to do an issue business as well as an acceptance business then the world must know that you have considerable means at your back, and as you increase your business you must have the capital.

1203. *Mr. Tulloch*: You have been asked what advantage this country gets. Of course, the credit of the services which you and others perform is a very material item in reference to the balance of trade with the rest of the world?—Undoubtedly.

1204. *Mr. McKenna*: Can you tell me from your experience whether an accepting house usually will only accept up to a certain limited amount having relation to the total of its capital?—Yes; as far as I can gather the sort of unwritten rule is that an acceptance house does not accept more than three to four times the value of its capital and reserve. (*Mr. Newbold*): Those are the points I want to bring out.

1205. *Mr. McKenna*: Would you say that the accepting houses to-day have accepted approximately up to the limit of their self-imposed rule?—Just at the moment I should say no, but then everybody's acceptances are down. If you had asked me that question a year ago I should have said yes.

1206. You would have said a year ago that they had all accepted as much as they could accept?—I should think so.

1207. Having regard to the rule of safety?—The rule of safety.

1208. If the acceptance business were not done by the joint stock banks that would mean, would it not, in good times a reduction of the acceptances by London?—Certainly. I hope no one will think from anything I have said that the acceptance business could be done to-day without the joint stock banks.

1209. The balance of trade would suffer if the joint stock banks did not do it?—Certainly.

1210. Would you take into account in determining what the rate should be the experience of the joint stock banks as to what happens when the rate for acceptances is raised?—Yes.

1211. And would you assume that if the joint stock banks found the total of their acceptances materially declining it indicated too high a rate?—If all the joint stock banks went together, you mean?

1212. The total of all the joint stock banks. You would regard it as dangerous, would you not, for the joint stock banks to raise the rate to a point which would diminish the total of the acceptance business?—I would if it assumed proportions of importance.

1213. *Professor Gregory*: I believe that the accepting houses have an Association have they not?—No; there was a Committee formed after the War—I forget now in what connection—I think it is really still in being, but it practically never meets; it was formed for a special purpose, and it was kept in being, and I suppose it could be called together for any particular problem that we might wish to solve.

1214. Am I right in thinking that that Association has recently been discussing the problem of a central clearing house for information with regard to acceptances?—Yes, that is so.

1215. And the efforts to arrive at a reasonable settlement of that problem have not succeeded?—No.

1216. What is your own view of the problem?—My own view is that each acceptance house must depend upon its own skill and its own connections; that it is very difficult, owing to questions of disclosure of clients and so on, to get unanimity on that point. If it could be done it has obviously quite definite advantages. We have had many cases where certain merchants have got too much credit in London. That can be avoided, provided you are dealing with an honest person, by asking for disclosure as to what are the other credits they have in London.

1217. Can you rely to some extent on the discount market indirectly discriminating against the man who has too many acceptances outstanding?—Drawers?

1218. Yes?—I think one can say this: That one always hears in a gossiping way from discount brokers when there is a lot of some particular paper out. Some discount broker notices it, and you hear of it; but so long as the bill is drawn on a perfectly solid house of course they will discount the bill.

1219. Is there very much evidence that some of your old clients are not now drawing on London, but drawing on Amsterdam and New York?—No. I do not think at the moment we have any evidence of that. Amsterdam is a very small market. The New York discount market is developing, and no doubt she is a competitor, and will continue to be a competitor, but the Amsterdam market soon gets filled up. It is just the same with Paris. It is a very small discount market, and it very soon gets filled up. They cannot do anything big.

1220. Do you think there was a tendency to transfer business from London to New York before we went back to the gold standard? Was there any evidence that people preferred dollar acceptances?—I am afraid I have not looked up any figures there; I would not like to give you an opinion. I have certain figures here which might give you some indication. No, I am afraid I cannot answer that question. I do not remember that that was so; I do not think it happened, because at that time the American discount market was still very undeveloped. It is only really, during the last five years, that the big development in New York has taken place. And then, geographically, one has to remember that New York is not very convenient for a great many people. You can imagine sending your bills to be accepted and getting them back again. All that will, of course, militate as regards your acceptances.

1221. I take it that New York is really doing fresh business, rather than cutting into the existing business?—Well, I should say New York to-day, when their rate is right, does undoubtedly compete. You see, if you give a compensation in the rate the inconvenience is paid for.

1222. *Mr. McKenna*: It depends mainly on the rate of discount?—I am not talking of commission; I am talking of the discount rate. If the drawer of the bill can discount cheaper, considerably cheaper, in New York, of course he gets a compensation for his inconvenience and he will go there.

1223. *Chairman*: Might I ask you a general question? How far, in your view, has the position of London as the centre of gravity of international finance been affected of recent years? Has the prestige and reputation of London suffered to any material extent?—From the issuing point of view, of course, London no longer holds the unique position she did, but from the point of view of acceptance I think she is still far and away ahead of any other centre in the world, and has absolutely maintained her position.

1224. The sterling bill is still the best?—The sterling bill is still the best; the world much prefers it, everything else being equal, and London's discount facilities are so unrivalled; there is nothing like them in New York.

1225. Do you think that in the future that preeminence is likely to be lost?—No, I do not think it is. I think New York will go on developing. The world's development and the increase of population and the demand for acceptances for moving commodities must increase, and New York will take some of that, no doubt. I think there is room for both, but I do not think New York will under any circumstances, unless we get very very poor here, ever rival us so far as acceptance and discount are concerned.

1226. What about the French position?—The French position at the moment can be rather disregarded, as far as acceptance is concerned. The French bill stamp is 3s. per cent., as against 1s. per cent. in London.

1227. It is a fiscal obstacle?—30s. per mille against 10s. per mille.

1228. That is a fiscal obstacle?—Yes, a fiscal obstacle. That is more on a three months' bill than the joint stock banks charge for accepting.

1229. *Mr. Newbold*: Is it not possible that the 3s. stamp will be removed in the future?—There is very little doubt that that bill stamp will come down, very likely this year, and be equal to ours. That is very much under consideration. They realise the disability, and it will come down.

1230. *Chairman*: Suppose that the stamp duty is wiped out?—You still have the fact that the discount market there practically does not exist. The banks take a certain amount of discounts. The French mentality is very much against that type of business. They do not seem to have the confidence which is necessary for that business; they have got no discount houses like we have here; it is all in the hands of the banks, who all have very narrow limits for every name, with the consequence that they are very soon filled up with the name of any one acceptance house there. The market is so narrow that it will be many years before it will grow. They will make a brave attempt to get it to grow, but their mentality is against it; they become easily nervous, and frightened, and that sort of mentality is no good for this business.

1231. You have told us that one result of this business being conducted in London is that it brings money to London, and enables London to earn commissions on transactions between foreigners?—Yes.

1232. Does this business, on the other hand, involve the diversion to foreign quarters of any money that might otherwise be employed in this country?—I do not think so. As I say, I think the foreign balances that come to this country in consequence of the acceptance business fully take care of the foreign acceptances, and that being so I do not see that there is very much harm done.

1233. Suppose you had the case of a pretty bad fraud by a foreigner whereby your responsibility emerges, and you have got to foot the bill; in that case you would have to pay out money to the party; but as against that, you say, you have received funds from abroad which, over all your business, compensate for any payment out which you have to make?—No; I think the way you must look at it is this: Every acceptance house makes these losses such as you have described. In estimating whether it is worth while going on in the acceptance business you must allow always for a certain number of losses and on balance your commissions compensate you.

1234. Like an insurance premium?—Like an insurance premium.

1235. What I want to know is whether this business being conducted in London for foreigners involves any drain on money which might be employed here?—I think none at all. On the other hand, I think it brings a vast amount of other business to London which would not come, but for these very intimate connections which exist between people in this country doing the acceptance business—banks and acceptance houses and the rest of the world.

1236. *Mr. Keynes*: I think that in New York statistics are collected of the volume of acceptances outstanding, and published at monthly intervals. Would you see any objection to all London acceptors sending a monthly return of their aggregate acceptances to the Bank of England in order that the figures might be pooled in a lump figure and published as in New York?—I see none at all. I should be perfectly willing to do it if I were asked. They would be sent to the Bank of England in confidence; individual firms' figures would not be published. As we all have faith in the Bank of England we should know it would not go out beyond them.

1237. In the absence of those statistics have you any guess to make as to the volume of acceptances in London?—I have tried to find a figure which would be reliable in that regard, and from the best source that I can obtain and with my own knowledge I should say to-day acceptances are rather lower on the whole than they were last year. The present figure is something like £230.000,000 to £250,000,000—that is what I believe to be the case—and out of that I think you may say that £100,000,000 are the pure acceptance houses, that is to say, the private banks. Then you have got joint stock banks, the Anglo-South American, the Indian banks, the Japanese banks—I am talking of prime acceptances—and then you have very big merchant houses that draw on themselves and so on.

1238. Is there any means of knowing what proportion of those acceptances is carried in the portfolios of foreign institutions?—No, I have not been able to get a figure of that. Of course a large portion of those bills is carried by foreign banks abroad. They are sent over here for acceptance, and either they are kept here in the portfolio of that bank by that bank's agent or they may be sent back to Berlin, for instance, and kept there. Quite a large number of acceptances, therefore, never come on the London market, but are carried by the foreigner with the foreigner's own money in his own country.

1239. Have you any guess to make as to the proportion?—No. I think one could find certain figures which would enable one to guess, but it would take some time.

1240. *Mr. McKenna*: Would your experience be like mine, that variation in the amount of foreign-owned bank bills carried in the portfolios of the banks depends almost entirely on the discount rate in London?—I do not say it entirely governs it, but it has a considerable effect; it varies with the amount of money in the other country.

1241. And the bill is discounted or not discounted according as it is worth while or not?—Yes, but a great many of the banks want sterling acceptances. Whatever the rate is they must have sterling acceptances in their portfolio as part of their assets; it is a thing they can turn into cash in a minute and, therefore, they never come to London.

1242. *Mr. Keynes*: You have first of all got this volume of acceptances, part of that is held by foreign institutions?—Yes.

1243. A certain proportion of what they hold you say they would hold in any circumstances. There would be a further part which would be very sensitive to changes in the London rate?—That is so.

1244. I was wondering whether you had any guess to make of the magnitude of that sensitive part?—I could get it. I have only had a fortnight to prepare for this.

1245. *Chairman*: You are quite entitled to ask for notice.—One could get a sort of figure, but it would take several months.

1246. *Mr. Keynes*: Would it not be useful for the Bank of England to endeavour to obtain regularly such figures, so that we knew month by month what the volume of acceptances was, what proportion was held at home and what proportion was held abroad?—The Bank of England?

1247. Yes, if the Bank of England could collect that information.—If they could get it I think it would be very useful. They would have to apply, of course, to other Central Banks and ask them to get it for them. I imagine that would be the machinery.

1248. *Mr. McKenna*: You do not hold bills for your customers in portfolio, do you?—Sometimes.

1249. Much?—Sometimes.

1250. It is usually done by the banks, is it not?—Yes.

1251. Not the acceptance houses?—No, but very often we are utilised to buy bills to keep them in portfolio for the people we buy them for.

1252. You do hold them?—Yes; not in all cases.

1253. *Mr. Keynes*: I think you told us that in your case your deposits were very nearly equal to your acceptances?—Yes, our total deposits are in excess, but our foreign deposits are about equal to our foreign acceptances—often a little more; sometimes very much more. I can remember times when they have been double and more.

1254. You think that would be normal, so that the £230,000,000 to £250,000,000 worth of acceptances would have associated with them something like that quantity of deposits?—That is my argument. Some of the bills would be held by Central Banks, and so on, for this you have got to deduct, say, £50,000,000; that leaves £200.000,000, and that £200,000,000 is cash in this country belonging to the foreigner.

1255. Would you see any objection to the Bank of England obtaining a regular return of the foreign money in London as they do in New York, and then publishing an aggregate figure of it?—A return of what?

1256. A return of the bills held by foreigners. You know the return which they have in New York of the liquid foreign assets in the hands of New York banks. Is there any reason why we should not have a similar figure?—I know of none. I think the ordinary acceptance houses would be perfectly willing to give it.

1257. Is it not the case that fluctuations in that figure are almost as important as fluctuations in the stock of gold in drawing conclusions as to the reasons for a reduction in Bank Rate?—You mean, if we have excessive foreign balances here that are not well spread?

1258. Fluctuations in the foreign balances would be a very good guide as to whether our rate for money was an equilibrium rate?—Undoubtedly, and the danger is greater where you have very big deposits from one country. As everybody knows, the French deposits here——

1259. You would know the weakness of the situation, and equally the strength, if you had the figures here to supplement the movements of the foreign exchanges?—Yes, I think they would help. They might sometimes be rather misleading, like all these things, but they would help you to form an opinion.

1260. It seems strange to people who watch this from outside that the City should go on from year to year without vital information when they could get it by collecting it from one another.—Well, I think one must remember that the collection of statistics is a development of recent years. I personally am in favour of it.

1261. I know you are an enthusiast.—The more information that can be collated, I think, the better for everybody.

1262. You have told us, I think, twice that acceptances are down this year as compared with last year. What are the reasons for that?—The price of commodities has fallen tremendously. It does not matter what you take, coffee, tea, sugar, rubber, tin, everything is down, and, as the London acceptance is largely used in moving these things from one part of the world to the other, obviously the money required to do that, the demand on the acceptance houses, is less; when commodities were very high the demand on acceptance houses was larger, each merchant wanted more to move the same amount of commodities.

1263. When you say they are down, what figure have you in mind—10 per cent., 20 per cent.?—Oh, more. Rubber is down——

1264. The aggregate of acceptances.—The aggregate of acceptances? They vary, I should think they might be down by about 10 per cent. to 15 per cent. I do not think it is more.

1265. Would there be a corresponding movement of foreign balances?—It is very difficult to say, especially now with this French situation. You cannot tell. Normally, I do not think that necessarily the foreign balances would go down with the fall in acceptances owing to a fall in commodities; I do not think so.

1266. Has the fall in the market rate on the discount market increased the aggregate of bills which the London market has to carry itself?—Well, apparently it has not recently; the discount has fallen but the bills have not increased.

1267. *Mr. McKenna*: Might not that be due to the competition of New York, where the rate has fallen to a still lower level?—The rate in New York is 4 per cent.; about the same.

1268. *Professor Gregory*: Is not the main reason for the increase in the bills presented for discount or acceptance that foreign holders of bills expect the rate to go still lower when Bank Rate goes down?—I do not think that is really the case. You see, the merchant has got to draw on somebody whatever Bank Rate is; he has got to move his goods and he will choose the cheapest discount market. He cannot refrain from drawing.

1269. *Mr. Brand*: Is it not the fact that the discount market complain of a scarcity of bills?—Yes. there is a great scarcity. They are down 10 per cent. to 15 per cent. There is a big foreign demand. We ourselves are continually getting orders to purchase for foreign banks and bills are very difficult to get without driving the rate down; in fact, these purchases from abroad have driven the rate down.

1270. *Mr. Keynes*: Supposing it were desirable, in view of the internal position, to have a lower Bank Rate than would be safe if you were to allow that Bank Rate to draw bills to this country, would you see grave objection to a system whereby the Bank of England asked acceptance houses to increase their acceptance rate, i.e. to increase their commission so that the total cost to the foreign borrower of the commission and discount rate would be as it was previously?—I think that would be extraordinarily difficult because the drawer of the bill, your client, would never know quite where he was. You quote him a rate and that rate governs his transactions for a long time. If he were continually having that rate put up and down I think it would be very bad for business as a whole.

1271. You see my point?—I quite see what you mean; if you have a very cheap market you can afford to pay a bigger commission.

1272. Yes, and it might sometimes be desirable to have a very cheap market for home borrowers without allowing foreigners the extra facility?—I quite see your point, and I think it is an extraordinarily difficult situation, the situation of the international market and the home market, the outside and the inside situations. I think that would be definitely detrimental to business here, and if New York did not do it I think you would drive the business to New York. The trader likes to know where he is and the uncertainty of the situation would militate, I think, very much against this market.

1273. I have one final question on this point. Suppose Bank Rate goes down, it may be that the first effect of that will be to bring to London the floating margin of bills which is very much determined by the rate; but would it be correct to argue that that will not be cumulative, that it may happen very quickly in the weeks following the reduction, but once London has absorbed this floating margin there will not be a further amount in the next month, a further amount in the next month and so on?—No. I think one can say this, that a low discount rate, provided you do not have finance bills, does not stimulate the amount of drawing. I have been trying to get a figure of pre-War acceptances *apropos* of this, and I am told on what I believe to be very good authority that the amount of bills in 1913, prime acceptances, was £350,000,000, and of that £350,000,000 60 per cent. were finance bills. It was a figure that astonished me, but it came from a source that I believe to be reliable. Of course, since the War, as you know, the finance bill has been very much frowned upon; I do not say they are non-existent, but they are very limited in quantity. Provided they are cut out and the drawings on London are confined to produce and to legitimate trade, I do not think the low rate is going enormously to increase drawings on London, except perhaps to draw the trade from New York if she did not reduce her rate at the same time.

1274. *Professor Gregory*: Has there been a large drawing of finance bills during the American Stock Exchange boom?—No; I should say none. I have not seen any. What happened in the New York Stock Exchange boom was that she had a call money rate on the Stock Exchange which averaged 8½ per cent. between 1st January and 30th September last year. The liquid balances in this country went over, but she did not use our market by drawing bills.

1275. The flow of money was not financed by finance bills?—No, it was simply that if the security offered was perfectly good after you had got your 8½ per cent. your exchange would cost you ½ of 1 per cent., and by the time you had paid the commission on the other side for lending you still had a good margin.

1276. I am not saying it was a bad thing. I only wanted to know whether it was financed by finance bills?—No, I do not think so.

1277. *Chairman*: I want to put to you a quite general question of the relationship of your activities to trade. First of all, when you accept a bill that is drawn by a foreign merchant, or in respect of moving goods from one foreign country to another, you receive your commission—that is money received in this country from a foreign source. In the next place, is the transit of goods from one foreign country to another facilitated by the existence of that credit which the document represents?—It is facilitated to this extent, that that bill being drawn on somebody who is well known, and whose credit is undeniable, is like a Bank of England note.

1278. The transaction is facilitated, and if it is a question of moving goods from one place in the world to another—I take it that a large amount of the transport trade of the world is in British hands, is it not?—That is so.

1279. ——may it not be that we gain advantage financially in the shape of freights for British ships from these transactions being facilitated by you?—I think that is certainly so. That is to say, if these acceptance houses were not ready to do this business, and make it safe for sellers, obviously the business would not be so easily and smoothly done, and it would perhaps be done in less volume. Apart from that, the fact that the bills are drawn in London creates for us a goodwill towards this country—a goodwill for trade and everything else; a goodwill which we have been able to keep up to comparatively recently. I am perfectly satisfied that America is getting great benefit both from her acceptances and her foreign issues, and that the large development of her export trade has gone hand-in-hand with them.

1280. Do you accept a large number of bills which represent transactions between people in this country and foreigners?—Yes, we do.

1281. In that case you are handling and facilitating the export or import business of this country?—That is so.

1282. The movement of goods out of or into this country?—Yes, in both directions, and that is a very large proportion of all the acceptance houses' business.

1283. And are those export and import operations facilitated by your assistance?—Without any doubt.

1284. I want to see what we are getting out of it?—Without any doubt.

1285. *Lord Bradbury*: Is it not also true—at any rate if we are to place reliance on the old text books—that those bills on London, which originate from the shipment of commodities between two foreign countries, in point of fact are actually used in the course of their existence for the purpose of paying for our exports?—That is right. They form foreign exchange.

1286. They are used as currency?—As currency. The merchant in Chile who has to make payment in London buys these bills and remits them here.

1287. And they are used largely in connection with the export trade rather than the import trade?—Yes, I should say that is so.

1288. *Chairman*: I think you told us there are really two classes of acceptance house, are there not?—Yes, there is the acceptance house that limits itself to the pure acceptance business coupled very frequently with what is called consignment business.

1289. What is that?—The consignment of commodities such as coffee, or wool, or furs, or things like that, which your customer abroad consigns to you to sell on his behalf in this market, and he draws a bill against that, and you pay yourself back by the sale of those commodities. That used to be done very largely by the acceptance houses. It is done much less now, because owing to the means of communication, and everybody travelling much more, the merchant over there probably gets into direct touch with the merchant here, and does not use the acceptance houses for the consignment part. He only draws the bill. That is still done a lot, but not to anything like the extent it was. Then there is the other acceptance houses, like my own firm, who accept and issue, and, of course, do foreign exchange.

1290. That brings us to the second chapter of your evidence, your function as an issuing house?—May I intervene for a moment? I would like to say that as regards the benefits which accrue to this country, you understand that all these bills that are drawn for the movement of produce all over the world between one foreign country and another foreign country have to be met in London, and there is a great deal of banking business in the course of the year which comes in consequence of that.

1291. I was going to ask you about this second function that you perform of issuing. I think the name itself sufficiently connotes what you do. You issue loans on the market?—That is so.

1292. In this country is that again a specialised business?—Yes. I think that is very much a specialised business.

1293. One has read that abroad the ordinary banks—the commercial banks—take a much more prominent part in fathering issues than is done by the banks in this country?—The banks abroad?

1294. Yes?—Well, not the banks themselves. Take, for instance, America. Of course, all the banks there have their company; take the Guarantee Trust, which is a very big concern, or the National City Bank; there is the Guarantee Company and the National City Company, and those are separate entities, and they make issues on behalf of those banks, and take all sorts of financial interests and risks, and so on, which the banks properly could not do, and should not do. They get over it by forming these companies.

1295. That means that indirectly the banks elsewhere interest themselves in the business of issuing in a way that the banks in this country do not?—I should say that in America, and, in the olden days, I suppose, in Germany, that is true. In Paris, of course, banks like the Banque de Paris, the Banque de l'Union Parisienne, are closely allied to industry, and they make issues; they do not have a separate company.

1296. Does that mean they utilise their list of customers?—Yes; and, of course, the banking system in France is quite different; the bank's customer is very tame. The French banker simply says "Here is a thing which you should buy." He keeps the portfolio of the man and the man really does what he tells him. They are not nearly as instructed a public as we have here. Therefore they are much more largely in the hands of the bankers. I am not suggesting they do not treat them properly, but they have much more power.

1297. So an issue abroad is put on the market, really, with the hallmark of the bank upon it?—Yes, that is so.

1298. That is not done in this country. You see upon prospectuses the name of the bank as issuer but that does not mean, does it, that the bank's credit is involved?—No; the joint stock banks, I understand, issue for their customers, but there is no implied recommendation of the security to the public. I think I am right in saying that.

1299. Beyond the fact of the presence of the name of a reputable bank?—Yes. If they thought it was fraudulent they would not do it. They do not say to the public by putting their name to it "We have looked thoroughly into this, and we are sure it is all right, and you can put your money into it." They do not pretend to do that.

1300. On the other hand, when you make an issue, or interest yourselves in an issue, how far do you interest yourselves?—I think I can say that with all the issuing houses there is quite definitely an implied recommendation. If we put our name to it we really say to the public "We have looked thoroughly into this, we thoroughly believe in it, and we can thoroughly recommend it." It is quite definitely an obligation, and you are supposed to look after the market, and so on, which, of course, a joint stock bank does not do. It is not their business, obviously. But there is an implied recommendation so far as an issuing house is concerned.

1301. What class of issues, for example, does your firm put upon the market?—Most of the business of the issuing houses is foreign because of their foreign connections; their business is foreign, and, therefore, they get the business brought to them, and most of them are agents of one or other Government for Government issues. There is no doubt the great majority are either foreign or Colonial. In our case we have issued a very large amount of Canadian guaranteed securities, many millions, but you may say that the great mass, the great majority of the issues made by issuing houses here are overseas.

1302. Do you buy up the issue yourselves?—Yes. I think another difference between an issuing house and a bank is that an issuing house, not always, but I think in the majority of cases purchases the security and re-sells it to the public. It takes the definite risk, and purchases it and does not hold it longer than it can help, because you might have a crisis in the world. That is what generally happens.

1303. That involves, does it not, a certain warranty of the solidarity of the security because you would not have purchased it in the first instance and involved yourself in consequent liability unless you were satisfied it was a fairly good thing?—That is so.

1304. *Mr. Keynes*: Do you commit yourself before you have arranged underwriting?—Sometimes you find your contract is not absolutely signed until you have underwritten. We do not worry about that provided we can go straight ahead when we have signed the contract. It is not our business to take long risks.

1305. *Chairman*: You say you deal entirely in foreign issues?—I said mostly. I did not say entirely—foreign or colonial.

1306. That means that someone overseas wants to raise money in this country and he uses the machinery of the issuing house for the purpose of getting that money, and if the loan is taken up it means that investors in this country are going to loan their money abroad through the instrumentality of this issue?—Yes, that is so.

1307. It is quite a large question, but it is one of the questions which enters into the public mind. One of the troubles suggested just now is that by means of the attractiveness of foreign loans put on the market by yourselves and others money is going abroad which could be used in this country, and that enterprise in this country is suffering in consequence of that money leaving these shores and going elsewhere. I should like your general views on that position?—Undoubtedly this country has a margin over for investment abroad. I have personally tried to study that particular problem, and, in my opinion, there is no doubt whatever that the export trade of this country has been built up largely owing to the loans which we have made to foreign countries. It is not only that you make a loan, but it builds up for you an extraordinary goodwill—I am talking for England. Everybody in the country that you lend to knows that you have helped to finance them and so it builds up a goodwill, and in my opinion the great growth of the foreign trade of America in recent years with certain countries—take a country like Brazil, the Argentine, and so on, and Central American countries—is largely due to the fact that they have lent money to those countries on a much larger scale than we have, I think I am right in saying, in recent years, and they have been doing an acceptance business which they did not do before and that has very much stimulated their trade. I do not say it is entirely due to that; I think perhaps a great deal of it is due to our not being very efficient as modern salesmen should be; on the other hand this has played a very great part, this lending by America abroad and their acceptance business, in building up her foreign trade.

1308. Do you think that industry in this country has to any extent been put on short commons for finance by the superior attractiveness of investment abroad, leading to the withdrawal of funds which might have been employed in this country?—I do not personally. I speak with great diffidence on this particular point, it is much more easy for the joint stock banks to tell you that. We do not come very much in contact with industry for this reason, an acceptance house must keep its funds liquid and it has to confine itself to the issue of what it believes to be first class bonds or debentures, it cannot assume liabilities which are going to mean a great locking up of monies, or it cannot father a particular industry. It cannot father a company; in my opinion, it should not. It can have a company alongside it like the American banks have, a trust company or a finance company that can do that, and lots of acceptance houses have such a company, but an issuing house itself should only deal in bonds and debentures and so on. Therefore, if an industrialist came to us purely for an issue of debentures, say, we would be delighted to make it for him, all things being equal, the security being good and if we believed in it, but he does not come to us because we are not in the position to do what the joint stock banks can do, make cash advances. We must not make cash advances as an acceptance house and lock money up so that it is not liquid in case of anything happening in the world. Therefore, the industrialist as a rule does not come to us. If he did come to us and ask us to make debenture issues and so on we should be only too delighted to do it if we thought the security was good, and we should be delighted to give him the advice he asked for. I think the reason he does not come is that we are not in a position to make him cash advances.

1309. I quite see that you are not brought into very direct contact with industry, but the question behind it all is whether your financial operations have some repercussion upon the industrial position. Although you do not come into contact with industry I want to know whether your financial operations have or have not any effect?—I think one must allow that if there is over issue of foreign securities no doubt it tends to make money dear in this country. I think one must allow that. We only have a certain amount of money for foreign investment.

1310. You seem to me to be the exporters of the margin?—Well, I think I am right in saying that the great majority of the foreign issues are made through Rothschild's, Morgan's, Baring's, Schröder's, Hambro's Bank and ourselves, and I think you are right in saying that in case of excess we are responsible.

1311. *Mr. Newbold*: It is British money you are collecting to send abroad?—Yes.

1312. You do a certain amount of issue of debenture stocks for concerns in this country, do you not? You did one sometime ago for the Newcastle-on-Tyne Electric Co.?—Yes. There was a case; as a matter of fact we happen to have been their financial advisers for many years, and there is a case where one is likely to do it—a first-class concern. Then through the Whitehall Trust, with which we are allied, we have made issues of securities of various English companies.

1313. *Mr. Bevin*: What is the margin which you estimate to be available for investment abroad now?—I have tried to make an estimate. I do not know whether Mr. Keynes is satisfied with my figures. There is always a great deal of money coming to this country from the sinking funds of old issues, therefore, it is not new investment of ours; it is merely reinvestment of something that had gone before. After allowing for that I calculated that in 1913, taking 1927 values, the investment abroad was £263,400,000, and in 1927, £133,700,000.

1314. *Chairman*: Just about half?—Just about half.

1315. *Mr. Brand*: What was the amount received by this country in the form of interest and sinking fund?—The amount received by this country was roughly about £90,000,000.

1316. That is sinking fund?—Sinking fund, Government, domestic and overseas. The overseas portion was 17 million.

1317. Does not the Board of Trade calculate that interest and sinking fund together is about £300,000,000?—I am not taking interest.

1318. Including it?—Yes, I think I have the figures of interest somewhere. I make it about £290,000,000.

1319. *Chairman*: One has to take into account that while you are exporting capital it is always coming back again in the form of repayments?—Yes, practically every foreign bond has a sinking fund and money is always coming back.

1320. *Mr. Brand*: If we do receive from abroad £300,000,000 interest and sinking fund, that means that through the export of capital in the past this country can now import without doing a hands-turn £300,000,000 of imports?—Quite; and that is, I think, the great danger for this country at the present moment because our real position is being obscured. If we began *de novo* and had to make our own daily bread instead of having it furnished from the savings of our forefathers we should find ourselves in a very different position.

1321. *Mr. Bevin*: Out of this £133,000,000 have you any figures to show what proportion would be represented by goods?—No, I have not.

1322. *Chairman*: It is important then, Sir Robert, to preserve, if one can, a due proportion of the application of our savings between home development and development abroad, looking at it in its largest aspect?—Undoubtedly.

1323. And do you regard it as of importance—I think you do for the reasons you have already given—that we should maintain our export of capital so far as we can because of the resultant benefits of which you have spoken?—I do. I think it is vital that we should lend as much money as we reasonably can abroad.

1324. Of course, if all past loans are being repaid and fresh ones are not being made, the result will be that this country will lose its position of being a creditor country sooner or later?—By degrees, of course.

1325. By degrees. At the present moment we are still a creditor country largely because of our past loans. As those are wiped out, we become to a diminishing extent a creditor country so far as we do not replace them by fresh loans. If we ceased to be a creditor country, having regard to our adverse trade balance, I suppose we would get into great difficulties, would we not?—I should say we should. We should have to develop our export trade considerably to make up.

1326. And the export trade is fostered by foreign loans?—Is fostered undoubtedly. Of course, we have never had a rule in this country that orders resulting from a loan made here must be placed in this country. France has always more or less gone on this line, that when she makes a loan abroad, I do not say she sees definitely that all the money is spent in France, but she takes more stringent steps than we do to see that she gets back orders, and so on. Every house here that makes a loan, I think, does its very utmost, if that loan is going for constructional purposes, to see that the money is spent in England. Sometimes one succeeds, sometimes one does not. That is a direct benefit, but the indirect benefits are what I have described.

1327. *Mr. Bevin*: You told us earlier that money lent abroad, say 40 or 50 years before the War, was lent mainly for the development of railways, and therefore resulted in trade for this country. Is it not the fact that the nature of the issues has completely changed, that you are lending abroad now for the actual erection of factories for the making of commodities in countries where there are high tariffs, which does not result in taking goods from this country. In other words, is not the nature of the results entirely different from what it was prior to the War?—Of course, in the case of a loan for a foreign Government it is very often rather difficult to trace exactly what it does with that money. It uses it very often to pay off an internal loan, and so on. But I should say on balance that what you say is probably right, that perhaps the loans in days gone by were used more for definite development purposes, although to-day too they are so used very largely. For instance, there is no doubt that in the case of municipal loans made by cities abroad for public utilities, and so on, we do get large orders in many cases.

1328. In view of the problem of unemployment in this country, is there not a need now for some discrimination instead of the wholesale export of capital which took place before the War?—It is very difficult to answer that.

1329. For instance, I saw an issue announced the other day for the erection of steelworks in South Africa. That would not be for development; that is a great competitive factor. You boast of cheap money in Great Britain. If that cheap export of capital is going into a competitive industry abroad, that means they are getting cheap money from Great Britain to produce goods probably cheaper than they can do in Great Britain itself?—I think that that to a certain extent may depend on whether the putting up of these things, the supply of material, and so on, came from this country. If it did, no great damage was done.

1330. *Mr. Newbold*: Surely when the foreign rolling mills begin to roll out plates in competition with this country it is very serious?—No, provided you are satisfied that a great proportion of your money is coming back. You cannot stop a country from putting up rolling mills.

1331. *Mr. Bevin*: If you are limited to £133,000,000 and there is a claim by the British steel trade for finance to put itself in a competitive position and to get itself on its feet by means of cheap money, and you have only that limited amount to lend and you export a great portion of that capital abroad and starve the British steel enterprises, is not that bound to produce unemployment in this country?—I think if your premises are right that British steel enterprises are starved for capital, that is to say, provided they are in a position to give security and so on, your argument is good. You take for granted that that is so. I am not in a position to give an opinion about that.

1332. I am struck by the difference in the margin that is available for export.—It is a question of savings.

1333. *Sir Walter Raine*: You did not quite make it clear to me whether that £133,000,000 was after deduction of the sinking fund repayments?—Yes, that is new money.

1334. In other words, we exported in 1927 £223,000,000?—The £90,000,000 included domestic sinking funds; the overseas portion was £17,000,000 so that we lent £150,000,000.

1335. *Mr. Brand*: But that figure, £133,000,000, does not alone represent the amount of money in this country available for investment?—No. It is my estimate of the new investment we made overseas in 1927.

1336. *Lord Bradbury*: And that figure does not take account of foreign interest, does it?—No, that is actual new money invested abroad; that is capital.

1337. And then upon that £133,000,000 we have the interest which is earned?—The interest is coming to us from abroad as well as the sinking fund.

1338. *Mr. Keynes*: I think £450,000,000 to £500,000,000 is usually given as the total national savings?—Yes, and the total capital issues at home in 1927 were £164,000,000.

1339. *Chairman*: If I may be elementary for a moment, investments, of course, are made from savings, and those investments may be made either at home or abroad?—That is so.

1340. You are chiefly concerned with the making of investments abroad? That is your province?—Yes.

1341. Some of those investments abroad, perhaps all of them, might have certain advantages from the point of view of our domestic position, but I wanted to ask you this: When you are placing an issue, which means that money is going abroad, do you exercise any discrimination as to the application of the money, or do you look only to the question of its security? Let me put to you what I have in mind. You might be asked by a foreign government to make an issue for them of £1,000,000 for the construction of a railway. You would appreciate that that might quite well result in our getting orders for rails and equipment. On the other hand, that government, with perfectly good credit from the financial point of view, might say, "We want £1,000,000, not for constructional purposes, but to make good some maturing loan," or something of that kind—a purely financial operation, but quite sound. If you sent our million pounds out there for a purpose of that sort, it might result in goodwill, possibly, but would it result in any commercial orders for this country?—Not immediately.

1342. Do you discriminate at all in your selection of the issues that you will put upon our market between those which you think will be beneficial to our industry and those you do not?—I think one can say this: One very often has propositions put forward which palpably, either directly or indirectly, are definitely detrimental to this country, and one generally refuses them where they are definitely detrimental to this country. We look at the security first, but we would much sooner, obviously, do a loan where we can get the orders. We always try and do that, and a transaction where we can get orders for the country is one which would always take precedence where there was competition. But we should feel perfectly at liberty to issue really well-secured loans for any country provided it was not definitely detrimental to this country; I mean for some purpose directly detrimental to this country.

1343. Having regard to the issues with which you have been concerned during the last few years, have you any classification of those which would indicate how far British money has gone in loans which might have some reasonable prospect of encouraging industry here, as contrasted with loans which were for purely financial purposes abroad, and not likely to have direct effect on our industries?—I could prepare it, but I have not it in mind at the moment.

1344. *Mr. Frater Taylor*: You said that in certain cases you stipulated that foreign countries should buy our products. There is another possibility of very great moment to this country. If we take Brazil, for instance, I do not know if it is within your knowledge, but there are large deposits of Itibira iron ore there. It is now in the hands of American financial people, and German steel interests, I understand, are trying to buy up large quantities. It does seem to me that if we lend money to Brazil we might bracket with it some stipulation that we British people should have some say as to this iron ore supply, because it is so vital for this country.—Of course that iron ore supply, you know, has been within the grasp of this country for a great many years; it is the same iron ore that I have always heard of.

1345. *Mr. Newbold*: Bahia is a long way up?—You would have to build a long railway. We have had our opportunities to control that if we liked. (*Mr. Brand*): Surely it has been controlled by a British syndicate until quite recently, has it not? (*Mr. Frater Taylor*): I did not know that. What I do know is that the Americans have come to me recently and said, "Can you get British people interested?" (*Mr. Brand*): I know until recently it was under the control of a syndicate.

1346. *Mr. Frater Taylor*: My point is that raw material in the shape of iron ore of high grade is of vital moment to this country?—I do not know the exact situation, but I know there was an English syndicate.

1347. Do you think that iron ore supply might properly be bracketed with a financial stipulation?—Quite.

1348. *Mr. Bevin*: Supposing you lend money abroad on security to start a new industry—is there any indirect influence on that country to put up tariffs as a protection for the loan?—Any influence?

1349. Yes?—No, I do not think so.

1350. It is rather curious that when money is lent abroad by Britain to inaugurate a new industry it is nearly always followed almost immediately by a tariff, and we are told as industrialists that that is one of the securities?—I do not ever remember having lent industrial money abroad. We only lend practically to governments and municipalities. Unless it was a government enterprise we should not be able. (*Mr. Newbold*): Or public utility.

1351. *Mr. Keynes*: Would you be able, to take a concrete case, to make it a condition of further loans to Australia that they should lower their tariffs against British goods?—That is a question that I was not prepared for. You are embarking there, of course, on a definite programme in regard not only to Australia but to our colonies as a whole. You have got to have an Empire programme. I would not do it to Australia unless I was prepared to do it to the others, although I think perhaps she is a very bad offender.

1352. *Chairman*: We are talking about the control and the destination of the savings of this country, apart altogether from the issues which you put before the British investor. Supposing you do not make a foreign loan which a foreign government is anxious to get, and the loan is taken up in America, let us say, or possibly in Paris, are not the investors of this country subsequently invited, to a large extent, to take up participation in those investments?—That is so, especially in America. I do not know that Paris issues would be absorbed here to any great extent because bonds issued in Paris are generally expressed in francs, and our investors do not care for that; but an enormous number of dollar securities issued in New York find their way back here. The New York banker takes the commission for doing this, and then, through the agency of a regular army of bond sellers, who are floating all over this country and every European country—France, Holland, Germany—they sell these securities back very largely to Europe.

1353. Consequently the British investor finds himself holding a security in the form of a dollar security which he might just as well have taken up direct through you?—Yes; of course I do not suggest that the whole of it comes back, but I think a very large proportion of it comes back to this country.

1354. It is a question of whether you can control your investors, and what they put their money into?—That is the great thing. You cannot do that. There is an enormous amount of investment that during the last few years no doubt has gone into United States securities; a very large amount.

1355. *Mr. Newbold*: It does not stay there very long, does it?—I do not know; I think it does. A tremendous lot of bonds.

1356. Bonds, yes?—And ordinary shares.

1357. Ordinary shares?—Yes; I think a great many.

1358. *Chairman*: Is there a large market in these things?—A very large market. I think a great many of the trust companies in this country hold a great many American securities, and I should say the insurance companies too.

1359. *Mr. McKenna*: It would be almost true to say, would it not, in the case of the dollar issues of certain French railways and of some early Scandinavian issues, that they are mainly held in London?—Yes; they have come back.

1360. They are mainly held in London?—Yes. Take a thing like the Dutch East Indies loan. We made the counterpart in London with Hambro's Bank and the Guarantee Trust made it in New York. There is hardly a bond left in America; they are all back here.

1361. *Chairman*: So the remedy, if it be a remedy, of trying to veto investments in foreign securities by stopping you from issuing them would really not be effective?—No, I do not think it could be. It may be a misfortune, but one has to realise the extraordinary fluidity of money and the great facilities for investing your money where you like. You have only to buy a telegraphic transfer and in two hours you have got your money in New York or where you like. It is these wonderful facilities for moving your capital about to-day, which are understood better than they were before the War, that will always defeat you in your efforts.

1362. Therefore, if the business is going to be done it might as well be done by this country so that we can get as much out of it as we can?—I think up to a point that is true. There are moments when we all of us hold our hand. There is a sort of veto on these things. In the City we are told that the authorities do not wish foreign issues to be made for the time being, and everybody holds his hand.

1363. *Mr. Keynes*: You think that is no good?—Well, I think temporarily it is all right. For a time everything is put back and then eventually it comes back to us when the market is prepared for it.

1364. Does it not very much diminish the amount of foreign investment if their local issue is stopped? It may be that English investors would buy dollar securities, but it is more difficult. Would it not reduce the likelihood of an investor buying a foreign investment if there were no large issues in London?—I do not think so in a case where the investor did not want to have more than so much per cent. of his capital in England. It might or might not. A great many people want all their money in sterling securities, but one who did not would find those foreign investments some way or other. I think what you have in mind is the effect of making the issue known.

1365. There is a very large advertising campaign, a great deal of money is spent in advertising new issues. The dollar bond issuing houses do not do that in this country. Do you hold that circularising has no effect?—I think it would be fair to say the results are not exactly the same. You probably do place on balance more if the issues are made in London than if they are in another country, but you would not stop investment in foreign stocks.

1366. Would you say that the fact of there being comparatively few foreign issues in London in recent months has been one of the factors strengthening the gold reserve of the Bank of England, and that if issues had gone on as before that would not have happened?—I think all the time there has been very large purchase of foreign bonds through New York which has been very detrimental to London. Take things like Roumanian bonds and Polish bonds. You have had six points difference between exactly the same bonds. What happens? Our London market is sent endways by somebody coming in and selling the London bonds and buying New York bonds. It pays them. They get 2½ per cent. or 3 per cent. on balance after they have paid their commission. And apart from that exchange there have been large purchases of dollar bonds. Those purchases have been done on a big scale. The last six months they have been very large.

1367. But the selling of the home issue will very soon bring them down?—And it has had the effect of smashing the foreign market here, depreciating it enormously.

1368. *Mr. McKenna*: I do not think there is very much difference between you and Mr. Keynes. You would agree that the cessation of foreign issues has an effect immediately?—Immediately has a definite effect.

1369. Although in a period of time that would be made up?—By the flow being greater, investment in foreign securities.

1370. *Mr. Keynes*: I quite agree if you stop foreign issues to the extent of £100,000,000 you do not reduce foreign investment by £100,000,000, but I should think you would reduce it by £50,000,000?—No; they have to put the money somewhere.

1371. *Professor Gregory*: Would not the effect of vetoing foreign issues in this country be that this method of purchase would be very much more highly organised than it is now?—Very much, and much more undesirable because it is not advertised.

1372. *Sir Walter Raine*: Would you have to add to the £150,000,000 that you referred to as the amount lent abroad in 1927, the amount of dollar purchases in New York?—In 1927 it was not on such a scale. I could not give you a figure.

1373. It is reasonable to assume that this £150,000,000 is substantially British money that has gone abroad?—I should say yes, but against that you must not forget that you are getting interest from abroad all the time.

1374. I am not raising any objection to that. The point I am trying to get is, are we actually investing more abroad than you are able to vouch for?—Yes; I think we are.

1375. *Chairman*: I am afraid that we shall not be able to complete your evidence to-night, Sir Robert. Could you come again to-morrow afternoon at half-past five?—I think so, Sir. I would make arrangements.

1376. You might think over the question how far we can control the investment of money, whether there is any method of doing it, whether it is desirable and what the consequence would be. Then we would like you to tell us about the French position and its repercussions?—I am prepared to do that.

(*Adjourned until to-morrow, Friday, the 24th January,* 1930, *at* 4.30 *p.m.*)

NINTH DAY.

Friday, 24th January, 1930.

PRESENT:

The Rt. Hon. H. P. MACMILLAN, K.C., *Chairman.*

Sir THOMAS ALLEN.
Mr. ERNEST BEVIN.
The Rt. Hon. LORD BRADBURY, G.C.B.
The Hon. R. H. BRAND, C.M.G.
Professor T. E. GREGORY, D.Sc.
Mr. J. M. KEYNES, C.B.

Mr. LENNOX B. LEE.
Mr. CECIL LUBBOCK.
The Rt. Hon. REGINALD McKENNA.
Mr. J. T. WALTON NEWBOLD.
Sir WALTER RAINE.
Mr. J. FRATER TAYLOR.

Mr. G. ISMAY, *Secretary.*

Mr. JOSEPH KITCHIN, called and examined.

STATEMENT OF EVIDENCE SUBMITTED BY MR. KITCHIN.

GOLD PRODUCTION OF THE PAST.

1. The world's output of gold advanced greatly after the discoveries in California and Australia in 1848 and 1851, and the following gives a summary, mainly by centuries, from the earliest recorded figures:—

(In millions of pounds sterling at 84/11½ per fine oz.)

——	Century's output.		Aggregate output.	Annual rate.		Century's increase.
1493–1600		103·2= 2·4%	103·2		0·97	
1601–1700		124·6= 2·8%	227·8		1·25	21·4
1701–1800		259·9= 5·9%	487·7		2·60	135·3
1801–1850	162·0		649·7	3·24		
1851–1885	858·9		1,508·6	24·54		
1886–1900	547·6			36·31		
	——	1,568·5= 35·5%	2,056·2	——	15·68	1,308·6
1901–1929		2,355·6= 53·4%	4,411·8		81·23	
		4,411·8=100%				

2. The following gives the record by countries, those specified accounting for 80 per cent. of the total output to date and 91 per cent of the 1929 output. The countries are arranged in the order of their beginning year, i.e., the year when the output commenced to be of more than insignificant size:—

——	Year of discovery.	Total output to end 1929.	Year's record output.	Discovery to record year.	1929 output.
		£	£		£
Russia	1814	389,000,000	7,300,000 in 1910	96 years	5,000,000
United States...	1848	931,000,000	20,800,000 in 1915	67 "	9,100,000
Australia	1851	720,000,000	18,400,000 in 1903	52 "	2,500,000
Transvaal	1888	1,018,000,000	44,300,000 in 1929	+41 "	44,300,000
India	1889	73,000,000	2,500,000 in 1912	23 "	1,500,000
Mexico...	1894	152,000,000	5,100,000 in 1910	16 "	2,500,000
Canada...	1896	147,000,000	8,100,000 in 1929	+33 "	8,100,000
Rhodesia	1900	71,000,000	3,900,000 in 1915	15 "	2,400,000
West Africa	1903	29,000,000	1,700,000 in 1914	11 "	800,000
		£3,530,000,000			£76,200,000
Rest of World...	—	882,000,000			7,300,000
World's total since 1493 ...		£4,412,000,000			£83,500,000

3. The Transvaal now ranks first and the United States second in total and present output. Of the Transvaal production the Rand district accounts for 99 per cent., the Indian output all comes from the Kolar district of Mysore, most of the Canadian total is derived from the Porcupine and Kirkland Lake districts and most of Australia's total from the Kalgoorlie district of Western Australia, while in the case of the other countries and the rest of the world the production is spread over many districts and is small for individual mines.

4. The foregoing tabulation indicates that there is a tendency for gold countries to reach their zenith more speedily with the progress of time, which is perhaps an indication that the newer goldfields are more intensively worked. So far as present indications go it appears that, of the nine countries, all except the Transvaal and Canada have already passed their zenith, though the two exceptions account for 63 per cent. of the present rate of production. Apart from the two countries just mentioned the record years all came within the period 1903-1914.

5. Most of the countries have shown swings from low to high points and vice versa, and in the following tabulation they have been arranged in order of highest annual production, which is also, with one or two exceptions, the order of present output. Record years are in heavy type:—

——	High.		Low.		High.		Low.		1929.
		£		£		£		£	£
Transvaal					1916	39,500,000	1922	29,800,000	**44,300,000**
United States	1853	13,100,000	1883	6,200,000	**1915**	**20,800,000**	1927	9,100,000	9,100,000
Australia	1853	12,700,000	1886	5,300,000	**1903**	**18,400,000**	1929	2,500,000	2,500,000
Russia	1871	5,400,000	1886	3,800,000	**1910**	**7,300,000**	1920	200,000	5,000,000
Canada					1900	5,700,000	1907	1,700,000	**8,100,000**
Mexico					**1910**	**5,100,000**	1914	100,000	2,500,000
Rhodesia					**1915**	**3,900,000**	1929	2,400,000	2,400,000
India					**1912**	**2,500,000**	1929	1,500,000	1,500,000
West Africa					**1914**	**1,700,000**	1928	700,000	800,000
						104,900,000			76,200,000

The present yield of these nine countries is therefore 27 per cent. below their record annual output when added together irrespective of date. The low points of the Transvaal in 1922 and of Mexico and Russia in 1914 and 1920 were severely reduced by the white miners' strike on the Rand and by the revolutionary troubles in the last two cases, so that they are not representative of normal conditions.

6. As regards the world as a whole the production advanced from £6,000,000 in 1847 to £30,700,000 in 1853. In those days—it is very different to-day—the bulk of the gold won was derived from alluvial, and as this was gradually worked out the output fell to £19,600,000 in 1883. A few years later the Rand district of the Transvaal was discovered and several of the countries also increased their production, but the Transvaal has the main credit of the subsequent rise, which led to the record figure of £96,400,000 in 1915. After that time (disregarding the year 1922, when the output was reduced £6,000,000 owing to the Rand white miners' strike) the total fell to a new low point of £68,000,000 in 1921, and it has recovered during the last five years to between £81,000,000 and £83,500,000 (13 to 16 per cent. below 1915), with a slightly rising tendency. Apart from the Transvaal the production has fallen from £57,000,000 in 1915 to £39,200,000 in 1929. Details of production year by year from the time of record are given in Table II attached.

CONSUMPTION OF GOLD.

7. In Table I attached are given particulars annually and quinquennially from 1890 to 1929 (the figures for 1929 being estimates subject to revision) of the consumption of the world's gold supply. The first claims on new gold are made by the industrial arts of Europe and America and by India and, to a minor extent, China and Egypt. When these claims are satisfied the balance is available for addition to the World's Stock of Gold Money. This World's Stock has been compiled by the writer simply by adding this balance year by year to an assumed Stock of £210,000,000 in 1847. It therefore does not represent a physical count of the visible money in the world year by year, but has the advantage of giving annual totals over a long period, and it tallies well with physical counts, so that it appears to be largely justified. The Stock of Gold Money so computed omits India, China and Egypt, where gold money does not circulate and is of negligible quantity.

8. The table shows:—

——	1835–1889 (55 years).	1890–1929 (40 years).	Total 1835–1929 (95 years).	1920–1929 (Last 10 years).
	£	£	£	£
Industrial Arts	371,000,000= 36%	665,000,000= 24%	1,036,000,000= 27%	162,000,000= 21%
India's absorption ...	134,000,000= 13%	450,000,000= 16%	584,000,000= 15%	195,000,000= 25%
China and Egypt's absorption.	18,000,000= 1%	72,000,000= 2%	90,000,000= 2%	—
Total demand	523,000,000= 50%	1,187,000,000= 42%	1,710,000,000= 44%	357,000,000= 46%
Added to Stock of Gold Money.	514,000,000= 50%	1,625,000,000= 58%	2,139,000,000= 56%	415,000,000= 54%
World's output... ...	1,037,000,000=100%	2,812,000,000=100%	3,849,000,000=100%	772,000,000=100%

The data for other periods can be gleaned from the table, but it will be seen that, broadly, the demand is of the order of 45 per cent. of the output, while the remaining 55 per cent. is added to the Stock of Gold Money.

9. If this Stock of Gold Money is suitably charted (*vide* the writer's statement of evidence in the Report of the Royal Commission on Indian Currency and Finance), it will be seen that from 1850 to the outbreak of the Great War, and subject to allowance for trade cycle variations, there is a fairly close correspondence between the Stock on the one hand and Wholesale Commodity Prices and the Bank Rate on the other. The following compares the three factors for a century to the outbreak of the Great War. The years 1848, 1862 and 1894 are those when the annual increase in the Stock of Gold

Money changed from below 3.1 per cent. to above 3.1 per cent., or *vice versa*. As 3.1 per cent. was the average annual increase in the Stock from 1850 to 1910, that figure is subtracted from the rate of change in the Stock for the purpose of giving a better comparison with the other two factors. The years 1810, 1849, 1873 and 1896 in the case of Commodity Prices and 1851, 1865 and 1895 in the case of the Bank Rate are the years of major maxima or minima for three-year centred averages. The years 1807 and 1911 are taken for the Stock of Gold Money to allow for the supposed lag of two or three years in its effect:—

—	Stock of Gold Money.			Wholesale Commodity Prices.				Bank Rate.			
	Total Stock.	Increase p.a.	Rate of change p.a.	—	3 years average centred.	Change in period.	Rate of change p.a.	—	3 years average centred.	Change in period.	Rate of change p.a.
	£	£									
1807 ...	160,000,000			1810	197			1810	(5%)		
		1,200,000	−2·4%			−55%	−2·0%			−49%	−1·6%
1848 ...	210,000,000			1850	89			1851	2·56%		
		17,800,000	+2·8%			+42%	+1·5%			+148%	+6·7%
1862 ...	459,000,000			1873*	126			1865	6·35%		
		10,700,000	−1·4%			−42%	−2·4%			−65%	−3·6%
1894 ...	802,000,000			1896	73			1895	2·20%		
		40,400,000	+0·6%			+38%	+1·9%			+90%	+3·5%
1911 ...	1,489,000,000			1913	100			1913	4·19%		

* There is some reason for taking 1864 (121) instead, and there would then be greater correspondence in time with the Bank Rate.

The last two factors, with a small lag, rise or fall in their general trend as the rate of increase in the Stock of Gold Money wanes and waxes, and a similar state of affairs would doubtless be found to exist with many other economic factors.

10. The correspondence with the Stock of Gold Money ceases after 1914 for the reasons that war and post-war conditions have upset any comparison, and that the item which influences such factors as Commodity Prices is now not the total Stock of Gold Money but that portion of it which has been collected into Central Banks and Treasuries. The monetary conditions have been greatly changed by the transference of gold from circulation and other banks.

PROSPECTIVE SUPPLIES OF GOLD.

11. There is reason to believe that 1915 with its total of £96,400,000—apart from some outstanding new discovery—will prove to have been the zenith of the world's gold output and that, though the production, after falling to £68,000,000 in 1921, has recovered to £83,500,000 at the present time (55 per cent. of this recovery being due to the New Rand and the balance to Canada and Russia), the prospects are that there will be no further recovery, but rather a decline, increasing with time, after about 1934.

12. The search for gold has grown in intensity for the last 80 years, and the world is now rather fully prospected. The day of the individual digger has largely passed and has given way to work by organised companies. Gold is very largely disseminated in many parts of the world, but is rarely found sufficiently concentrated to be payable. It occurs mainly in igneous quartz reefs or the alluvial derived from their disintegration, and for the most part it is not won in conjunction with other metals. Since 1888, however, it has been won from the banket or "pudding-stone" of the Rand, a conglomerate of sedimentary formation. The Rand is a district some 50 miles long, and consists of an almost continuous series of mines.

13. The change in the production from alluvial to quartz reefs and then to banket can be very roughly illustrated thus:—

—	Proportions.			Annual Totals.			
	Alluvial.	Reefs.	Banket.	Alluvial.	Reefs.	Banket.	Total.
				£	£	£	£
1848–1875 ...	90%	10%	Nil.	21,000,000	2,000,000	Nil.	23,000,000
1890	45%	47%	8%	11,000,000	11,500,000	2,000,000	24,500,000
1904	18%	60%	22%	12,000,000	43,000,000	16,000,000	71,000,000
1929	8%	39%	53%	7,000,000	32,000,000	44,000,000	83,000,000

14. Prior to 1890 the recovery was probably only 60 per cent. of the gold contained in reefs or banket, but, largely because of the adoption of the cyanide process, the proportion is now about 95 per cent., and for some time it has virtually reached its limit.

15. More than half the world's production is obtained from the Transvaal, all of whose gold, except about £1,000,000 a year, is won from the banket of the Rand district. This district may be divided into two districts—the Old Rand, consisting of the western, central and near-eastern sections, and the New Rand, consisting of the far-east section from the New Kleinfontein mine onwards. The Old Rand reached its zenith in 1912 with £32,400,000, and it is now producing less than two-thirds of this quantity. Its production is likely to continue to drop markedly. The New Rand, on the other hand, arose some 16 years later, and is likely to continue to increase till about 1932 or 1933, to then decline moderately till about 1940, after which it will probably decrease at a more rapid rate.

16. The outcrop portions of the Rand mines have been worked out, and operations are carried on at ever-increasing depths, even a mile or more from the surface. In the period 1913-1929 27 mines (26 on the Old Rand) ceased operations, while seven new mines (all on the New Rand) commenced production. The number of companies now producing is 33. The output has not fallen in proportion to the number of producing companies for the reasons that the newcomers have worked on a larger scale than the average of the older mines and that several of the companies have added to their areas and increased their milling capacities. Because of the fact that work has to be conducted at increasing depths, the present cost of opening up a new mine is in the neighbourhood of £1,750,000 to £2,000,000, and the time required six or seven years—a period which tends to increase. This is naturally a great deterrent to the opening up of a new mine, for it requires some courage to subscribe money with no possibility of a return for many years and with no certainty of the mine then being payable, for much of the money has to be risked long before the value of the property can be even approximately gauged. The last mine started production in 1924—over five years ago—while, as regards producers which are still to come, two are likely to add to the output from 1932 and 1934, one other is in the developing stage, and, apart from those, there are three or four which may help to minimise the fall in the output.

17. Canada produces under 10 per cent. of the world's production, but from 1907 to 1929 it has shown a fairly steady progress from £1,700,000 to £8,100,000, and will doubtless go further yet. Russia and Mexico may increase their present totals of £5,000,000 and £2,500,000 moderately. The United States, at present holding second place with 11 per cent. of the output, has decreased rather precipitately from £20,800,000 in 1915 to £9,100,000. Australia has fallen practically every year from £18,400,000 in 1903 to £2,500,000. All countries except the Transvaal, Canada and, perhaps, Russia and Mexico seem likely—collectively if not individually—to decline.

18. It has already been indicated that little is to be hoped from improved metallurgy, while the limits and possibilities of existing goldfields are perhaps fairly known. Subject to the qualification as to the possibility of some outstanding new discovery, there seems to be no prospect that the world's production will advance beyond the present level. The question as to whether there is anything in this qualification is, therefore, vital. The Rand is unique alike in its formation and its rate of production, and one can hardly expect another Rand to be discovered. At any rate over 40 years have passed without a suggestion that anything of the kind is probable, and the fields which have since arisen (*vide* paragraph 2) have not attained very considerable proportions. Apart from the Rand, no single goldfield has ever in history reached a maximum output of more than about £5,000,000 per annum, or has lasted any appreciable time without showing a marked decline. The Klondyke district is a fairly recent example; and it would require several goldfields of the order of £5,000,000 per annum—only 6 per cent. of the present world output—to off-set the decrease which is in prospect with time. Moreover, if there is any important new discovery, it will (unless alluvial is concerned) reach appreciable figures only after many years' work. While it would not be reasonable to dismiss the possibility of considerable additions from new sources—the analogy of the history of gold itself and of other metals forbids that—it is not prudent to attempt to speculate on what is unknown and unassessable.

19. The writer has made as careful an estimate as possible of the probable world output up to 1940. In the case of the Transvaal, in respect of which he has the advantage of special knowledge, the lives, outputs and prospects of 39 mines (including six not yet producing) have been separately calculated, with due allowance for improving grade or enlarged capacity in some cases and for declining grade in the case of mines nearing the end of their lives. In the cases of Canada, the rest of the British Empire, the United States and Russia—where scattered mines are mostly concerned and no special knowledge is claimed—the trend of the last four or five years has been assumed to continue:—

(*In millions of pounds at* 84/11½ *per fine oz.*)

—	Transvaal.	Canada.	Rest of Empire.	British Empire.	United States.	Russia.	Elsewhere.	World.
1929	44·3	8·1	7·2	59·6	9·1	5·0	9·8	83·5
1930	43·6	8·4	7·0	59·0	8·9	5·2	10·0	83·1
1931	43·0	8·7	6·8	58·5	8·7	5·4	10·0	82·6
1932	44·6	9·0	6·6	60·2	8·5	5·6	10·0	84·3
1933	43·8	9·3	6·4	59·5	8·3	5·8	10·0	83·6
1934	42·9	9·6	6·2	58·7	8·1	6·0	10·0	82·8
1935	41·8	9·9	6·0	57·7	7·9	6·2	10·0	81·8
1936	41·4	10·2	5·8	57·4	7·7	6·4	10·0	81·5
1937	40·3	10·5	5·6	56·4	7·5	6·6	10·0	80·5
1938	38·6	10·8	5·4	54·8	7·3	6·8	10·0	78·9
1939	35·6	11·1	5·2	51·9	7·1	7·0	10·0	76·0
1940	35·5	11·4	5·0	51·9	6·9	7·2	10·0	76·0

According to this calculation the existing rate of output, while not likely to increase, will remain fairly unchanged for the next five years and will then decrease—at first very slowly and then at a greater rate. The probable error to be allowed for in considering these figures naturally increases with time. If the calculation were continued to a later date, it would show about £60,000,000 in 1945 and £55,000,000 in 1950, thus indicating a very rapid rate of fall between 1940 and 1945 and a slower one afterwards; but estimates so far removed from to-day are to be regarded as containing a considerable element of conjecture. It is right, however, to point out what the possibilities are on the present outlook.

20. As the Committee is probably more interested in the amount of new gold available as money than in the world's output itself, it is desirable to carry the calculations a step further, with a repetition of the caution as to the estimates after 1940.

Accordingly the quinquennial figures contained in Table I are continued by the addition of 1930-1949. As regards these 20 years the gold output is that already indicated; and the demand and the balance added to Gold Money is not an estimate but merely illustrates the result if these continue to be divided in the *proportions* of 42 per cent. and 58 per cent. which it will be observed were the averages both for 1890-1914 and for 1915-1929. The effect on the gold in Central Banks and Treasuries is also shown, it being assumed that they receive the whole of the new gold after the demands of the industrial arts, India, China and Egypt have been satisfied. The possibility of their also receiving further contributions from gold assumed to still remain in other banks, in circulation or hoarded is ignored. They held 65 per cent. of the total Stock of Gold Money at the end of 1914 and now have 90 per cent. of it, so that further supplies from this source are minimised:—

(*In millions of pounds at* 84/11½ *per fine oz.*)

—	World's Gold Output.	Total Demand apart from Money.		Balance added to Money.		Gold in Central Banks and Treasuries.	
						End of period.	Increase p.a. for period.
1890–1894	151·0	59·8	39%	91·2	61%		
1895–1899	252·8	97·1	38%	155·7	62%		
1900–1904	305·8	131·8	43%	174·0	57%		
1905–1909	430·7	162·4	38%	268·3	62%		
1910–1914	469·7	222·9	47%	246·8	53%	(1075)	
	1610·0	674·0	42%	936·0	58%		
1915–1919	430·2	155·8	36%	274·4	64%		
1920–1924	359·0	188·3	52%	170·7	48%		
1925–1929	412·5	168·6	41%	243·9	59%	(2100)	
	2811·7	1186·7	42%	1625·0	58%		
1930–1934	416	175	,,	241	,,	2341	2·2%
1935–1939	399	168	,,	231	,,	2572	1·9%
	3627	1530	42%	2097	58%		
1940–1944	350	147	,,	203	,,	2775	1·5%
1945–1949	290	122	,,	168	,,	2943	1·2%
	4267	1799	42%	2468	58%		

If it were to be assumed that the total demand would persist at the same average *amount* as in the 15 years to 1929 the figures for the 10 years to 1939 would be virtually the same, but those 15 years represent an abnormal period. Largely as a result of the impoverished conditions of the world outside of the United States the demand of the industrial arts has been reduced from the 1913 figure of £27,000,000 by 45 per cent. and it is to be expected that in time there will be a greater demand from this source unless fashions change. The demand of India for gold may possibly be reduced in time by other forms of investment finding favour. But if the pre-war increase and amount of total demand are regarded, a very unfavourable view of the prospects of additions to the supply of new money must be taken. Even on the figures of the above tabulation a declining annual rate of increase of the Money in Central Banks and Treasuries appears to be in sight, and this starting with a rate of increase which on pre-war experience would be totally insufficient to support the world's economic development with a stable level of prices.

TABLE I.

Consumption of the World's Gold Supply, and World's Stock of Gold Money.

(In millions of pounds at 84/11½ per fine ounce.)

(Proportion of current output consumed as additional figures under first five headings.)

	Industrial.*		India.†		China and Egypt‡		Total demand.		Balance available as money.§		World's Gold Output.‖		Stock of Gold Money.¶			World's Population.**	
											Total.	Increase.	Total.	Increase.	Per head.	Millions.	Increase.
1890	10·3	42%	4·6	19%	0·7	3%	15·6	64%	8·9	36%	24·5	−3%	720·1	1·3%	121*d.*	1426	0·9%
1891	10·3	38%	2·2	8%	1·8	7%	14·3	53%	12·5	47%	26·8	9%	732·6	1·7%	122*d.*	1439	"
1892	10·3	34%	−2·2	−7%	1·9	6%	10·0	33%	20·1	67%	30·1	12%	752·7	2·9%	125*d.*	1450	0·8%
1893	10·4	32%	1·2	4%	—0·7	−2%	10·9	34%	21·5	66%	32·4	8%	774·2	2·7%	127*d.*	1461	"
1894	10·8	29%	−1·8	−5%	—	—	9·0	24%	28·2	76%	37·2	15%	802·4	3·6%	131*d.*	1472	"
	52·1	34%	4·0	3%	3·7	2%	59·8	39%	91·2	61%	151·0	32%		12·8%			4·2%
1895	12·1	30%	2·4	6%	1·6	4%	16·1	40%	24·7	60%	40·8	10%	827·1	3·1%	134*d.*	1483	0·7%
1896	12·3	30%	2·6	6%	2·2	5%	17·1	41%	24·5	59%	41·6	4%	851·6%	3·0%	137*d.*	1494	"
1897	12·3	25%	4·7	10%	0·6	1%	17·6	36%	30·9	64%	48·5	17%	882·5	3·6%	141*d.*	1505	"
1898	13·4	23%	5·9	10%	0·9	1%	20·2	34%	38·7	66%	58·9	21%	921·2	4·4%	146*d.*	1515	"
1899	15·0	24%	8·0	12%	3·1	5%	26·1	41%	36·9	59%	63·0	7%	958·1	4·0%	151*d.*	1526	"
	65·1	26%	23·6	9%	8·4	3%	97·1	38%	155·7	62%	252·8	67%		19·4%			3·7%
1900	15·7	30%	2·5	5%	2·9	5%	21·1	40%	31·2	60%	52·3	−17%	989·3	3·3%	154*d.*	1537	0·7%
1901	16·3	30%	3·2	6%	1·6	3%	21·1	39%	32·9	61%	54·0	3%	1022·2	3·3%	158*d.*	1548	"
1902	15·6	25%	7·9	13%	3·6	6%	27·1	44%	33·9	56%	61·0	13%	1056·1	3·3%	162*d.*	1560	0·8%
1903	15·3	23%	8·9	13%	6·3	9%	30·5	45%	36·8	55%	67·3	10%	1092·9	3·5%	167*d.*	1573	"
1904	16·0	22%	8·9	13%	7·1	10%	32·0	45%	39·2	55%	71·2	6%	1132·1	3·6%	171*d.*	1588	0·9%
	78·9	26%	31·4	10%	21·5	7%	131·8	43%	174·0	57%	305·8	21%		18·2%			4·1%
1905	17·0	22%	2·7	3%	2·9	4%	22·6	29%	55·5	71%	78·1	10%	1187·6	4·9%	178*d.*	1603	0·9%
1906	19·1	23%	12·1	15%	8·6	10%	39·8	48%	43·1	52%	82·9	6%	1230·7	3·6%	183*d.*	1618	"
1907	20·0	24%	13·7	16%	4·4	5%	38·1	45%	46·9	55%	85·0	3%	1277·6	3·8%	188*d.*	1634	1·0%
1908	18·2	20%	5·1	5%	−0·2	—	23·1	25%	68·1	75%	91·2	7%	1345·7	5·3%	196*d.*	1650	"
1909	20·6	22%	16·6	18%	1·6	2%	38·8	42%	54·7	58%	93·5	2%	1400·4	4·1%	202*d.*	1666	"
	94·9	22%	50·2	12%	17·3	4%	162·4	38%	268·3	62%	430·7	41%		23·7%			4·9%

* Europe and America, excluding gold re-used. Based on the Bureau of the United States Mint for 1890–1913. Later figures approximated by the writer based on the incomplete figures of Bureau.

† Net imports for years to March 31 following (there is a lag of one to two months between output and import), with the country's own production for the calendar years added.

‡ Including China's own production.

§ Difference between "Total Demand" and the World's gold output.

‖ To 1876 compiled mainly from "The Mineral Industry." From 1876 the figures of the Bureau of the United States Mint.

¶ At end of year. Built up on the "Balance Available as Money" column. Excluding India, China and Egypt. The per head figures (given in pence) based on the estimated population of the World, not of gold-using countries only.

** At end of year.

TABLE I—*contd.*

	Industrial.*		India,†		China and Egypt.‡		Total demand.		Balance available as money.§		World's Gold Output.‖		Stock of Gold Money.¶			World's Population.**	
											Total.	Increase.	Total.	Increase.	Per head.	Millions.	Increase.
1910	23·0	25%	18·2	19%	6·8	7%	48·0	51%	45·7	49%	93·7	—	1446·1	3·3%	206*d.*	1683	1·0%
1911	23·5	25%	27·5	29%	1·0	1%	52·0	55%	43·0	45%	95·0	1%	1489·1	3·0%	210*d.*	1700	„
1912	25·6	27%	25·2	26%	5·7	6%	56·5	59%	39·4	41%	95·9	1%	1528·5	2·6%	214*d.*	1716	0·9%
1913	27·3	29%	17·8	19%	−0·9	−1%	44·2	47%	50·5	53%	94·7	−1%	1579·0	3·3%	218*d.*	1732	„
1914	21·0	23%	7·0	8%	−5·8	−6%	22·2	25%	68·2	75%	90·4	−4%	1647·2	4·3%	226*d.*	1748	„
	120·4	26%	95·7	20%	6·8	1%	222·9	47%	246·8	53%	469·7	9%		17·6%			4·9%
1915	17	18%	1·3	1%	−2·5	−3%	15·8	16%	80·6	84%	96·4	7%	1727·8	4·9%	235*d.*	1763	0·9%
1916	18	19%	5·0	5%	2·4	3%	25·4	27%	68·1	73%	93·5	−3%	1795·9	3·9%	243*d.*	1776	0·7%
1917	16	18%	19·6	23%	2·5	3%	38·1	44%	48·2	56%	86·3	−8%	1844·1	2·7%	248*d.*	1788	„
1918	17	21%	−3·3	−4%	0·4	1%	14·1	18%	64·9	82%	79·0	−8%	1909·0	3·5%	254*d.*	1799	0·6%
1919	23	31%	27·9	37%	11·5	15%	62·4	83%	12·6	17%	75·0	−5%	1921·6	0·7%	255*d.*	1811	0·7%
	91	21%	50·5	12%	14·3	3%	155·8	36%	274·4	64%	430·2	−8%		16·7%			3·6%
1920	22	32%	3·5	5%	−3·0	−4%	22·5	33%	46·5	67%	69·0	−8%	1968·1	2·4%	258*d.*	1827	0·9%
1921	15	22%	0·7	1%	−2·2	−3%	13·5	20%	54·5	80%	68·0	−2%	2022·6	2·8%	264*d.*	1843	„
1922	17	26%	26·7	40%	1·2	2%	44·9	68%	20·6	32%	65·5	−4%	2043·2	1·0%	264*d.*	1858	„
1923	17	22%	20·2	27%	1·5	2%	38·7	51%	36·8	49%	75·5	15%	2080·0	1·8%	266*d.*	1874	„
1924	16	20%	52·5	65%	0·2	—	68·7	85%	12·3	15%	81·0	7%	2092·3	0·6%	266*d.*	1890	„
	87	24%	103·6	29%	−2·3	−1%	188·3	52%	170·7	48%	359·0	−17%		8·9%			4·4%
1925	15	18%	27·8	34%	1·3	2%	44·1	54%	36·9	46%	81·0	—	2129·2	1·8%	268*d.*	1906	0·8%
1926	16	20%	16·0	20%	−0·4	−1%	31·6	39%	50·4	61%	82·0	1%	2179·6	2·4%	271*d.*	1927	1·1%
1927	15	18%	15·1	18%	0·4	1%	30·5	37%	52·0	63%	82·5	1%	2231·6	2·4%	275*d.*	1949	„
1928	14	17%	18·0	21%	1·4	2%	33·4	40%	50·1	60%	83·5	1%	2281·7	2·2%	278*d.*	1970	„
1929	15	18%	14·0	17%			29·0	35%	54·5	65%	83·5	—	2336·2	2·4%	282*d.*	1990	1·0%
	75	18%	90·9	22%	2·7	1%	168·6	41%	243·9	59%	412·5	15%		11·9%			5·3%
Totals of above	664·4	24%	449·9	16%	72·4	2%	1,186·7	42%	1,625·0	58%	2811·7						
Totals 1835 to 1889.††	371	36%	134	13%	18%	1%	523	50%	514	50%	1037						
	1036	27%	584	15%	90	2%	1,710	44%	2,139	56%	3849						

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* Europe and America, excluding gold re-used. Based on the Bureau of the United States Mint for 1890–1913. Later figures approximated by the writer based on the incomplete figures of Bureau.

† Net imports for years to March 31 following (there is a lag of one to two months between output and import), with the country's own production for the calendar years added.

‡ Including China's own production.

§ Difference between "Total Demand" and the World's gold output.

‖ To 1876 compiled mainly from "The Mineral Industry." From 1876 the fignres of the Bureau of the United States Mint.

¶ At end of year. Built up on the "Balance Available as Money" column. Excluding India, China and Egypt. The per head figures (given in pence) based on the estimated population of the World, not of gold-using countries only.

** At end of year.

†† The figure for China and Egypt is incomplete.

TABLE II.

GOLD PRODUCTION.

(In millions of pounds sterling at 84/11½ per fine ounce.)

—	1915.	1916.	1917.	1918.	1919.	1920.	1921.	1922.	1923.	1924.	1925.	1926.	1927.	1928.	1929. (est.)
Transvaal	38·6	39·5	38·3	35·8	35·4	34·7	34·5	29·8*	38·9	40·7	40·8	42·3	43·0	44·0	44·3
United States	20·8	19·0	17·2	14·1	12·4	10·5	10·3	9·7	10·4	10·4	9·9	9·5	9·0	9·1	9·1
Canada	3·9	4·0	3·1	3·0	3·3	3·3	3·9	5·4	5·2	6·5	7·4	7·5	7·9	8·0	8·1
Russia	5·4	4·6	3·7	2·5	2·3	0·2	0·2	0·6	1·1	4·1	4·2	4·2	4·5	5·1	5·0
Australasia	10·2	8·3	7·4	6·1	5·5	4·7	3·8	3·9	3·8	3·4	2·9	2·8	2·9	2·7	2·5
Mexico	1·3	1·6	1·8	3·5	3·2	3·1	2·9	3·2	3·3	3·4	3·4	3·3	3·1	3·0	2·5
Rhodesia	3·9	3·9	3·5	2·7	2·5	2·3	2·5	2·8	2·8	2·7	2·5	2·5	2·5	2·4	2·4
Rest of World	12·3	12·6	11·3	11·3	10·4	10·2	9·9	10·1	10·0	9·8	9·9	9·9	9·6	9·2	9·6
Total	96·4	93·5	86·3	79·0	75·0	69·0	68·0	65·5	75·5	81·0	81·0	82·0	82·5	83·5	83·5
Of which British Empire	60·6	59·5	56·1	51·0	50·1	48·1	47·4	44·6	53·4	56·0	56·1	57·5	58·6	59·4	59·6

* Rand White Miners' strike.

CONSUMPTION OF GOLD.

	1915.	1916.	1917.	1918.	1919.	1920.	1921.	1922.	1923.	1924.	1925.	1926.	1927.	1928.	1929 (est.).
Industrial Arts (America and Europe)	17·0	18·0	16·0	17·0	23·0	22·0	15·0	17·0	17·0	16·0	15·0	16·0	15·0	14·0	15·0
India (year to March 31st following)	1·3	5·0	19·6	—3·3	27·9	3·5	0·7	26·7	20·2	52·5	27·8	16·0	15·1	18·0	14·0
China	—1·7	2·6	2·6	0·4	11·5	—3·9	—2·2	1·1	—0·5	—1·2	0·2	—0·7	0·2	1·3	?
Egypt	—0·8	—0·2	—0·1	—0·0	—0·0	0·9	0·0	0·1	2·0	1·4	1·1	0·3	0·2	0·1	?
Total Demand	15·8	25·4	38·1	14·1	62·4	22·5	13·5	44·9	38·7	68·7	44·1	31·6	30·5	33·4	29·0
Balance available for money (difference)	80·6	68·1	48·2	64·9	12·6	46·5	54·5	20·6	36·8	12·3	36·9	50·4	52·0	50·1	54·5
World's Output	96·4	93·5	86·3	79·0	75·0	69·0	68·0	65·5	75·5	81·0	81·0	82·0	82·5	83·5	83·5

N.B.—1915 was the year of highest gold production.

1377. *Chairman*: Gentlemen, this afternoon Mr. Joseph Kitchin has been good enough to come, and his evidence will be directed to the question of the production of gold, both historically, and, if I may say so, prophetically. Mr. Kitchin, I think you have made a very special study of the question upon which you are going to afford us evidence this afternoon. Perhaps you will kindly tell us what has been your relation to that problem?—I am the Assistant Managing Director of the Union Corporation, Limited, which is one of the so-called Rand Mining Houses, and in that capacity I have been specially connected with the gold mining industry of the Transvaal, particularly the Rand. We have mining interests in other countries, but hardly connected with gold. I have taken up the study as a hobby for many years now—about 20 years.

1378. And your professional connection with gold mining has, I suppose, made available to you sources of information?—Naturally, especially when considering the future supplies of gold.

1379. I suppose your expert knowledge has already been invoked by other committees, and we are very glad you have been able to come before us to-day. The Paper which you have been good enough to provide us with, and which contains a great deal of information, appears to fall into two parts. The first part, which is historical, informs us of the gold production of the past, and of the present position of the consumption of gold; then you pass into the more speculative region of prophecy as to the future. We are, of course, interested in both those aspects. You have the Paper in front of you, I have no doubt?—Yes.

1380. What are the sources of these figures? You go so far back as 1493. I should have thought we were rather outside the zone of accurate statistical information as far back as that?—You notice I start my table with 1890. 1493 is simply selected because Soetbeer, who first produced gold figures, starts with that date—the discovery of America. Of course, the earlier figures are largely conjectural, but by the time you come to 1890 I think you can rely on the figures pretty well. If you go back to the 70's or the 60's you will find there considerable differences in various authorities' statements of the gold output. I have had sometimes to decide as to which authority to follow. Roughly speaking, for the gold output since 1875 I have followed the United States Mint, which is undoubtedly the best authority; one can continually check its figures and find them correct. I have followed their figures for industrial uses of gold up to 1913. Since then, they have only given fragmentary figures, and I have had to fill up those gaps to enable me to compile my table.

1381. These figures are cumulative?—No. If you refer to Table I, I give it by single years, and then the total of each five years. They are cumulative as regards the stock of gold money, of course.

1382. But taking the figure on the first page of your Paper, of £4,412,000,000, does that represent an estimate of the existing quantity of gold in the world?—That is the total amount of gold produced since 1493, a small proportion of which will have disappeared, of course.

1383. That is an aggregate figure?—Aggregate, yes.

1384. Then you explain how various sources of gold supply were discovered from time to time, and you see their contributions reflected in this Table?—Yes.

1385. An interesting topic is the life of a gold mine, or a gold reef; I see you have discussed that later. Historically, a gold-bearing region comes into bearing for a time, and reaches its zenith, and then begins to fade out?—That is so as regards any gold-field.

1386. A general observation arises. There has, in what one may call modern times, been a very large increase in the amount of gold produced?—A very large increase. In fact, more than half this total of £4,412,000,000 applies to the present century.

1387. Then as regards the consumption of gold, you divide that into two uses, industrial and monetary?—Yes; except that I divide India and China from industry.

1388. What is the reason of that?—The figure that I put down under the head of "Industrial" excludes India and China. The figures for India and China, of course, are obtained from trade returns, and India's demand is almost entirely industrial. The idea of India hoarding gold, I think, has not very much in it. I thought it was more convenient to divide it under those heads. "Industrial" means, in effect, Europe and America, and "India" represents the total amount of gold which is sunk in India and never comes out.

1389. What use is gold put to in India, if it is not hoarded? Is it entirely for personal ornament?—Very largely. They use it as a form of wealth. They have not acquired the banking habit yet—the investment habit—and they buy gold and silver; they buy 100,000,000 ounces of silver per year, or 40 per cent. of the output, and they turn both largely into the form of jewellery—ear-rings, bangles, nose-rings, and toe-rings, and put it on their women. There are very strong native customs and laws which compel them to do that, customs which I think are likely very, very slowly to change.

1390. You do not think there is likely to be any very large amount of gold released by a change in the social habits of India?—I think not. If you take the figures as a whole, India has increased its claim on gold enormously. If you look at the figures up to the time of the War, taking them for the five quinquenniums before the War, the figures are £4,000,000, £24,000,000, £31,000,000, £50,000,000, £96,000,000—you see how the total was leaping up—and those figures have been surpassed since. But, of course, after the outbreak of War, when the conditions were abnormal, you find the Indian demand lessened for a time. That does not mean to say that the amount they will require in future may not be greater than it is at present; I mean that the rate of increase may lessen, perhaps, but they will still want more gold.

1391. *Professor Gregory*: Absolutely or relatively?—Absolutely.

1392. *Chairman*: As regards China and Egypt, what is the reason there?—I just put in the figures. You notice they are very small, except that China has on occasion—I think it was in 1919—taken £15,000,000 of gold; but that was exceptional. Over the whole of this Table, which spreads over 40 years, China and Egypt took £72,000,000 of gold between them.

1393. Is there a stable proportion between the amount of gold that passes into industrial uses and the gold that is utilised for monetary purposes?—Yes, to a certain extent, as I have pointed out in paragraph **19**. If you take the thing by long periods you will see from 1890 to 1914, that is a period of 25 years, the amount of demand—that is, the demand of India and of the industrial arts—accounted for 42 per cent. of the gold, and 58 per cent. was left to be added to money. If you take the following 15 years from 1914, which, of course, covers the War period, the proportion was again 42 per cent. and 58 per cent. Of course, in detail you get a good deal away from those proportions, but those are the broad figures. If you take a longer period you will find, I think, from the beginning of recorded time, 47 per cent. has gone to demand and 53 per cent. has been added to the stock of gold money.

1394. In the chapter of your précis dealing with the consumption of gold I see you relate the stock of gold money to wholesale commodity prices?—Oh, yes, there was a very close relation up to the outbreak of War.

1395. *Mr. Frater Taylor*: Has anyone attempted to estimate the gold which exists in forms other than money?—Not by physical count; I think that would be impossible; but I think that my tables to a large extent indicate, for instance, how much there is in

India and so on, and how much has been used up in industrial arts.

1396. Which table is that?—Table 1. You see there that out of the £4,412,000,000 of gold produced, this table covers altogether, if you take the bottom total, £3,849,000,000, of which industry has taken £1,036,000,000; India, £584,000,000, and China and Egypt, so far as I record them, £90,000,000, and £2,139,000,000 has been added to money.

1397. The object of my question is really to ascertain if, in your opinion, it is possible that gold existing in the form of, say, ornaments, may be set free for monetary purposes sometimes.—That would apply specially to India, do you mean?

1398. Yes. You said the process there would be slow.—Well, one cannot say what will happen in the course of time, but if you go by the past 50 years or so you will find only two or three years in which India has had net exports of gold as opposed to net imports. So far as gold is in hoards in India I suppose it is coming out from time to time to a certain extent, but it goes back in other forms. It does not go out into the world.

1399. Virtually speaking, there are in a measure gold reserves in the shape of Indian stocks, and so on?—Oh, yes. £600,000,000 sterling. Very big reserves.

1400. *Mr. Keynes*: Might I ask a series of questions relating to the industrial absorption. I take it that the figures of gold output are fairly reliable; they are not open to serious question?—Not since 1890 or even since 1875.

1401. The figures of absorption for India are official figures which one can accept without serious question?—Yes. I must say, with regard to those Indian figures, if you compare them with the trade returns you will not find them agree with them during the period of the gold premium when gold was put into the returns at its commercial price. I take all these figures at the rate of fine gold.

1402. When we come to the industrial absorption the figure is much more problematical?—That is so.

1403. You say up to 1913 you mainly rely on the United States Mint figures?—Yes.

1404. What is the basis of your figure of £15,000,000 a year in recent years?—The United States Mint up to 1913 used to publish annually their complete figures, and those figures, of course, as far as I take them here, relate to new gold. A considerably larger amount of gold was used for industrial purposes, but we are dealing with the new gold so used, after allowing for old material re-used. Since 1913 the United States Mint have published rather fragmentary figures, and I have had to fill in the gaps they have left. One year they might put in France, the following year they might omit it, and I have had to fill up that gap. Other countries which they used to cover before the War they do not cover now.

1405. In the United States Mint Report for 1927, did they not estimate the industrial consumption of 1926 at about £30,000,000 sterling?—They publish a table there which represents the gross consumption of gold, that is, before allowing for old gold re-used.

1406. Your estimate is reached by taking their gross figure and making a guess at the old gold re-used?—Not necessarily. Of this figure of £15,000,000 something like £6,000,000 or £8,000,000 applies to the United States itself. The United States has pretty complete figures with regard to gold for industrial uses. They might use a matter of £10,000,000 or £15,000,000, say, a year. Their net consumption of gold is, as far as I can remember, about £7,000,000 to £9,000,000. That £7,000,000 or £9,000,000 forms part of this £15,000,000; the rest is added in some cases by deduction from gross figures given by the Mint. In other cases I have had to fill up the gaps.

1407. Have you tried to make an actual count for any recent year, say, 1928? We know pretty well how much gold was produced and how much gold was added to bank reserves, and we know there was not much monetary gold added otherwise, so by subtracting the one from the other and making allowances for figures of exports from Russia you can arrive at an estimate. Have you tried that?—I have done a good deal of physical count of gold in Central Banks and Treasuries, but I do not think you can get very much there. There has been in the past a very considerable amount of gold in circulation and in private banks, and this old gold has been very largely drawn upon for additions to Central Banks and Treasuries.

1408. For that reason the method that I am proposing would give you a minimum figure rather than a maximum figure for industry. There might be sources of supply out of gold previously in circulation?—Yes.

1409. The United States Federal Reserve Board publish a figure which covers practically every bank?—Yes.

1410. If you take that and subtract the increase shown in the Federal Reserve return from the production of gold plus the exports from Russia in 1928, have you a note of what the result would be?—In 1928 the gold in Central Banks, according to the Federal Reserve Board, increased by £93,000,000 sterling. The amount added to money according to my table was £50,000,000 sterling. You see you have a very big difference to allow for.

1411. In 1928, £22,000,000 came out of Russia, did it not? The exports of Russia in 1928 were about that?—That is a figure I have not got.

1412. I think that is correct, is it not?—I have tried to work on figures of exports and imports, but so far as post-War is concerned they are perfectly hopeless. For instance, in the case of the United Kingdom, in the days of the gold premium gold coming one way was taken at the commercial value, and gold coming the other way was taken at gold value. Moreover, Government movements were sometimes omitted, and for part of the time no returns were published.

1413. But in 1928 by examining the trade returns of three countries—I think France, the United Kingdom and Germany—the Russian exports of gold were £22,000,000?—I did not quite follow that.

1414. The German trade returns show a figure of £17,000,000 imported from Russia in 1928. Our trade returns show a figure of nearly £4,000,000, and the United States trade returns show a figure of a little over £1,000,000, making a total of about £22,000,000?—Yes.

1415. That is a very important addition?—Yes. I have not got those figures at all.

1416. I am raising this point for this reason. Professor Edie has examined this very carefully. I suppose you have seen his recent pamphlet?—He has attacked my figures in a pamphlet he has published.

1417. Instead of a figure of £15,000,000 for absorption he arrives at a figure of £37,000,000 you will find, and he declares that the reason for the discrepancy between his figure and yours is that you have not allowed enough for the amount that has come out of circulation from Russia, and so on, particularly in France. He says that your figures are based upon a figure which the Bank of France gave a few years ago and that the Bank of France has since corrected their figure.—Gold in circulation?

1418. The gold which the Bank of France has recovered from circulation in pre-War days is so great that they have revised their pre-War figures.—I know this: That others have examined Professor Edie's figures and I do not think they substantiate them. The Gold Stabilisation Committee of the League is at present going into this question of gold in Central Banks and Treasuries and is getting out what one hopes will be a more accurate figure.

1419. Professor Edie's specific point was that your figures were based on the figures of the Bank of France's statement, and that you had not altered them since the Bank of France altered their estimate by 700,000,000 dollars.—That only applies to the circulation before the War. I take it at £160,000,000 sterling and he takes it at £250,000,000 sterling.

1420. If you work by count, that is £90,000,000 sterling which has been absorbed into industry over and above your figures. Then he gives a number of smaller items, but that is the main one.—I do not think this arises on the figures in Table 1, which is simply compiled by taking the world's gold output from year to year and showing where that has gone.

1421. His method is to make a count of monetary gold at two dates and that shows you what the amount of gold in circulation was in 1913. And he argues that the result of that is to suggest a much larger figure for industry than you suggest. I think he also seeks to confirm that argument by suggesting that your figures show a considerably greater reduction in the industrial use of gold since the War than the general increase of wealth would lead one to expect.—I attribute it to the fact that Europe is not in the position that it was before the War; according to my figures the European consumption has fallen by 50 or 60 per cent.

1422. He says that is due to the very large amount which was circulating in Europe before the War and was kept in people's pockets during the War, and has been gradually coming out into circulation since the War.—I do not think so. If you go by the United States Mint figures of industrial consumption the United States now is using about as much net gold as it did before the War, though it has hardly increased it, and I think that is quite consistent with Europe having largely reduced its demand Europe has been poor and that would be expected to have some effect on the figures.

1423. £15,000,000 does seem a very small amount though?—It does.

1424. This has a great deal of importance for us, because if it were more like £35,000,000 to £40,000,000 a year that would mean in the days that you are looking forward to that the amount left over for money would be small?—Naturally.

1425. *Professor Gregory*: There have been some changes which would indicate a reduced *per capita* consumption of gold for industrial arts—changes of taste?—Yes. One notices, for instance, that heavy gold chains are not so much used and jewellery fashions are changing, and, of course, to some extent I think the fact that we have got a United States figure through the whole period does throw a good deal of light on it. If the United States consumption of gold has not increased since 1913 I think it is reasonable to suppose that the European consumption has decreased because Europe has been much poorer.

1426. *Mr. Keynes*: Of course, there is all the rest of the world apart from India and China?—Yes; still, it is largely Europe and America. The use of gold in Germany, for instance almost disappeared for a time.

1427. *Professor Gregory*: It is possible to arrive at an approximate figure of the consumption of gold in all European countries by the hallmark, is it not?—I do not know.

1428. I should have thought that in countries where gold plate and so on had to be stamped for official purposes there would be some record?—The United States sends out queries to all the countries of the world and it gets very little information as to the industrial consumption. For instance, the industrial consumption in this country is not known, it is only guessed at, and yet we have the hallmark. I think they simply go to some people in Birmingham and ask them what they think has been used in the form of gold during the year, and then the Treasury, or whoever it is, takes that estimate for what it is worth.

1429. *Chairman*: You have read these criticisms to which Mr. Keynes has drawn attention. Are you familiar with those criticisms of your figures?—Professor Edie's?

1430. Yes.—Yes.

1431. Having considered them, do you remain of the same opinion still?—Yes. I have analysed them; I sent my analysis to Professor Eddie and he promised on his return to America to go into the figures, but, roughly speaking, there are no essential differences between his figures and mine if you take the figures of Central Banks. They are figures which you can assess pretty well. The difference occurs in the main in the estimates of the amount of gold in circulation before the War. The figure for 1913 was £500,000,000 roughly, and he would make that, I suppose, somewhere near £600,000,000, and a good deal of the difference is due to that cause. In the case of France he took the figure of £250,000,000 in circulation as against my £160,000,000.

1432. Apart from that discrepancy between you there is very little difference?—No.

1433. *Mr. Keynes*: In that case he alleges that both his figures and your figures are figures given by the Bank of France, but his figure is the later?—Yes, his figure is the later figure, and I understand that as far as the League's inquiries have gone they confirm that figure rather than the £160,000,000. The £160,000,000 I have tried to check by the statements. They are not complete. We know that, I think, £130,000,000 of gold has been recovered from the French public. Those figures have been given at various times. In 1928 the French people gave up £18,000,000 after an interval of many years on a fresh appeal, and the figures published from time to time tally fairly well with the £160,000,000. I believe that the French authorities—I suppose the Bank of France has been consulted in this matter—rather support this figure £250,000,000, and the League are trying to check that by getting as full information as they can as to the gold actually returned from circulation.

1434. *Chairman*: Does this point affect the allocation of 42 per cent. and 58 per cent. to which you draw attention in paragraph **19**?—I do not think it would affect that.

1435. The important question is how far gold will be available in future for monetary purposes. That is really what we are in search of, and if the data are not accurate of the respective allocations for these two purposes, the quantum of gold which is available in the future will be affected correspondingly?—Yes, but I do think this, that up to 1913 we were mostly affected by and interested in the total stock of gold money; to-day I think the position has changed owing to the collection of gold into the Central Banks and Treasuries. Before the War 60 per cent. or so of the world's stock of gold was in Central Banks and Treasuries. To-day the figure is over 90 per cent.; out of £2,300,000,000 they have got over £2,100,000,000.

1436. You think that for the future we might reasonably rely on 58 per cent. being the amount of the output of each year which would be available for monetary purposes?—On the experience of the last 15 or 20 or 35 years that would be the proportion.

1437. And it is on that basis that you have proceeded in your outline of the future?—Yes. I am careful to say I am making no estimate, I am merely applying that proportion.

1438. *Mr. Keynes*: Surely the other view is the right one. Supposing the supply of gold from the mines falls off there is no reason in the world why that should reduce the industrial consumption?—No. In fact, past history has shown that the industrial consumption, that is to say, industry and India, follows the increases and decreases in the gold output at a very lengthy period of time.

1439. Is there any reason why, under modern conditions, they should?—They will be very slow in coming back to their proper proportion, if that is their proper proportion.

1440. Why should there be any proper proportion?—After 1851 and the discoveries in California and Australia, the Indian demand was exceedingly small, and although the gold output went up enormously it was many years before India came in to take any appreciable share of it. The gold output reached its apex in 1853 and then it declined, but the Indian demand continued for many years after that.

1441. *Professor Gregory*: To increase?—Yes. It continued at an increased rate and then declined until it became smaller, years after the output had commenced to climb steadily. (*Chairman*): I do not quite see why the demand for gold for industrial purposes, whether for ornament or industry or other purposes, should always be a particular percentage of the output. I should have thought it was a natural demand rather than a relative demand. Why should it be related to the quantum? (*Professor Gregory*): I agree with Mr. Keynes and the Chairman that to base one's calculations on a fixed division is probably erroneous, but I should like to point out that if there is a falling off of gold and that results, as it probably will result, in a fall in price levels—that is one reason why gold consumption falls off—obviously the cost of the commodity goes up and that is particularly true of raw material producing countries.

1442. *Mr. McKenna*: You speak of the stock of gold money down to 1913 moving up and down at a lower or higher rate of increase in relation to the movement in wholesale commodity prices?—Yes.

1443. And you show that there is a close relation between them. Since 1913 you have not found the same close relation?—No, and that is largely because we have ceased to be dependent upon the total stock of gold money and are dependent upon the stock in Central Banks and Treasuries.

1444. Is not the reason what we may call for the moment the surplus stock of gold money down to 1913?—Yes.

1445. But the monetary gold since 1913 has not necessarily been money at all. It may have been surplus reserve, potential money, but not actual circulating money or the actual supplies of money which may have been held in reserve in Central Banks unused?—Yes. I do not distinguish between gold in Central Banks used and unused. I take the total in Central Banks and Treasuries.

1446. If a Central Bank, for instance, the Bank of France, absorbs an additional £50,000,000 of gold in the course of the year and does not use that gold for the purposes of additional circulation as currency there would be no effect on prices in consequence of the additional amount of gold absorbed. Is not that so?—I suppose so.

1447. That gold would not be money in any ordinary sense of the word; it would be bullion it is true and potential money, but not money?—I follow that. (*Mr. Lubbock*): But if convertible notes were issued against this bullion would it not be money? Might not an addition of £50,000,000 of bullion to the Bank of France imply an issue of francs? (*Mr. McKenna*): It might be held in reserve by the Bank of France, but there would be no additional notes in circulation, consequently, there would be no effect on prices.

1448. *Chairman*: You might pass on to the question of prophecy, Mr. Kitchin. You go on to deal in your précis with possible prospective supplies of gold. I gather you take the view that the production of gold is likely to diminish?—I think so.

1449. In arriving at that view there are certain elements of uncertainty; indeed, we do not know whether there may not be future discoveries of new goldfields, but I suppose the world has been pretty well ransacked?—Of course, we do not know whether there will be new discoveries, and we cannot assess what is not assessable. There has been no outstanding gold discovery in the past compared with the size of the total output to-day, apart from the Transvaal. The Rand stands by itself, unique, a separate formation; no other single goldfield has ever reached an output of more than £5,000,000 at its highest in a year, and that is, of course, a negligible percentage of the present total output.

1450. *Mr. Newbold*: One has heard optimistic views as to the possibilities of Canada as a source of gold supply. How far do those views appeal to you?—They do not appeal to me very much, though I believe, apart from the Transvaal, Canada has the best chance of increasing its output.

1451. There is a large territory in the North of Canada which has not been very fully surveyed geologically. In some regions of Canada there are hopes at least?—Plenty of hopes.

1452. *Chairman*: I have been down the Hollinger mine which is not very prosperous. (*Mr. Newbold*): It is practically worked out?—I do not know, but the Hollinger mine accounts for 40 per cent. to 50 per cent. of the output of Canada.

1453. *Mr. Newbold*: Practically nothing. For instance, as regards the Porcupine district—I was there three or four years ago—there is practically nothing but talk. (*Chairman*): Of course, they are carrying out prospecting over a very large area of Canada now. I do not know what the geological indications are. You do not think they are very hopeful?—I cannot say. There are no indications of an outstanding discovery so far. There should be a moderate increase in the Canadian output; in the course of 15 or 20 years they may on the present trend get up to £12,000,000 or £15,000,000, but that will not cut any great figure in the world's production.

1454. *Chairman*: Another aspect is the development of new processes for the recovery of gold. Do you think science is likely to devise any new method?—No. As I have shown in my statement, we have reached the limit. The cyanide process of recovering gold from tailings was discovered in 1891, and after 1891 the great increase in the gold output took place. Up to that time the order of recovery from gold ores generally was 50 per cent. to 60 per cent. With the aid of cyanide and the gold winning of the world turning more and more to big companies the recovery has now increased to about 95 per cent. You have increased it, therefore, from 60 per cent. to 95 per cent. from that cause alone, apart from new discoveries. But having got to 95 per cent. you are practically at the end of your tether. Similarly the Central Banks and Treasuries of the world in 1913 had just over 60 per cent.; they have now over 90 per cent. They cannot go very much further in that direction.

1455. I follow. You have exhausted the possibilities?—To a great extent; the margin is very much reduced for further improvement.

1456. *Mr. Brand*: Do you pay any attention to the idea that you can ever transmute gold from, say, mercury?—No. There is plenty of gold in sea water, of course, but it is a hopelessly unpayable proposition.

1457. *Mr. Newbold*: What about Central Africa? Is there not a very great amount of gold in the Congo?—I have not heard so.

1458. I thought there was.—No, though as far as regards new discoveries, discoveries that have not yet been made, I think they are as likely to take place in Africa as anywhere.

1459. The person I was speaking to was very secretive about it, but there is a general opinion, I think, that there is a certain amount. Is South America worked out?—It is still producing a fair quantity; of course, it is one of the oldest producers; it is still largely uncivilised and wild; but I do not think there is very much to hope for there in the way of increase.

1460. What reports have you from Siberia?—I do not know anything very much outside the Transvaal, but, of course, the Russian output is the oldest. In the old days when the production of the world was only £4,000,000 yearly they used to provide £3,000,000 of it and that was produced largely from alluvial. It is to-day largely obtained from alluvial. Of course, several companies were formed before the War by English capital and they seemed to have a fair future before them. They had to shut down owing to the Revolution; they are now slowly recovering, but they are not producing much gold.

1461. But the figures are rising?—They are rising.

1462. They are rising rather fast. I had some figures the other day which had been got out by the U.S.S.R. Bank. The figures given are in pounds avoirdupois—1924, 46,800; 1928, 102,000, but there is nothing yet to hand for 1929?—The output of Russia was formerly about £5,000,000 yearly. In 1920 and 1921 it went down to almost nothing owing to the effects of the Revolution. It is now again £5,000,000. It has never been higher than £7,000,000. That is one of the cases I mentioned as holding out some possibility of increase but I should think it is comparatively small.

1463. They are prospecting on a very large scale at present?—I do not know. I think that prospecting the world over has almost come to a minimum. The world has been pretty well prospected.

1464. *Mr. Keynes*: When these matters used to be discussed 40 or 50 years ago it was said that there was a certain element of stability. When the value of gold went up or down that stimulated or retarded the output fairly rapidly. That was in the days of the alluvial supply. I understand you to say there is now very little response in output and any response that there is is not apparent for several years?—Yes. There is a considerable lag.

1465. If the value of gold were doubled, do you think that would appreciably increase the output of gold?—I should not think very much.

1466. So that element of stability has ceased to exist, you think, owing to the change over in the method of gold production?—I think so. The record of the Rand, at any rate, is that before the War, when prices were continually going up, the cost of production was continually going down.

1467. *Professor Gregory*: Supposing it went down still more in consequence of the general fall of prices?—Unfortunately that has not been the case since the War. We have gone back to the pre-War level, and more or less remained there; costs are rising somewhat at present.

1468. *Mr. Keynes*: If they fell materially, would that increase the output?—Yes; it would tend to do so, at any rate.

1469. I thought that the upshot of your Memorandum was that the existing mines had not got much ore within reach which they are not actually going to exploit, and in order to encourage the sinking of new mines you would have to have a very material change in the situation?—Well, of course, if you reduce costs you enable more ore to come into the payable range.

1470. Is that a large amount?—It might be appreciable.

1471. Would that bring in a great deal more gold, say 10 per cent.?—Not 10 per cent.

1472. What sort of change in the price level would there have to be before one could hope for any serious relief in increased output?—I am not thinking so much of the price level as the cost of producing.

1473. There is some relation between the two?—Before the War we were continually decreasing costs, at a time when prices were continually going up.

1474. *Mr. McKenna*: What is your lowest cost of production now?—The present cost of production on the Rand is 19s. 9d. per ton.

1475. *Mr. Keynes*: What is the value of the gold extracted?—28s. 4d. These are 1928 figures. That is merely the working cost. Of course, there are other charges as well.

1476. Then I suppose in regard to some part of the output the cost of production is very nearly equal to the revenue?—In my evidence I draw a distinction between the Old Rand and the New. The Old Rand has been on the decline since 1912. If you take the Old Rand the position is this: In 1928 the revenue was 23s. a ton, the cost was 20s. 4d., the working profit was 2s. 8d., and the dividends—which are the real test of the divisible profit—were 1s. 2d. The Old Rand produced £20,000,000 of gold, and returned to the shareholders £1,000,000—5 per cent. If you go back to 1909 the dividends were £9,000,000. They have already come down from £9,000,000 to £1,000,000, and that portion of the Rand, which accounts for about one-half of the present output, has almost reached the unpayable stage.

1477. *Mr. Brand*: As it takes, I think you said, seven years to construct a new mine, you have to be fairly bold, and take a good deal of risk as regards costs, to start a mine?—Yes.

1478. *Chairman*: The general conclusion to which you have come is the rather depressing one which we find in the last paragraph of your Memorandum. You take a very unfavourable view of the prospects of additions to the supply of new money. "Even on the figures of the above tabulation a declining annual rate of increase of the money in Central Banks and Treasuries appears to be in sight, and this starting with a rate of increase which on pre-War experience would be totally insufficient to support the world's economic development with a stable level of prices." That is based really upon the Tables you have put in, and also upon your knowledge of the output of gold and the prospect of getting more gold?—Yes.

1479. You cannot refute a prophecy; you can only disbelieve it; but the value of a prophecy, of course, depends upon the data upon which it is based, and you have given us the material upon which you have proceeded.—Yes. As I have pointed out, the margin of error to be allowed for would naturally increase with time. We can gauge the position, say, three or five years ahead, but when you are talking of 10 or 20 years it is more speculative.

1480. This is your considered view of the output, based upon the information you have placed at our disposal, and your expert knowledge of the subject?—Yes. I put my view into figures. The figures must not be regarded so much as the trend of the figures. The question is whether the gold output is likely to rise or fall. I suggest it will remain stationary for a time, and then fall, perhaps at an increasing rate, and whether my calculation of the probable increase of gold in Central Banks and Treasuries—2 per cent. falling to 1.2 per cent.—is 50 per cent. out does not very much change the general picture which I want to give.

1481. We are very much obliged to you for putting this material at our disposal?—Thank you.

1482. We have your permission, I understand, to print your Memorandum?—If you please. (*Chairman*): Thank you. We are very much obliged to you.

(*The Witness withdrew.*)

Sir ROBERT M. KINDERSLEY, G.B.E., recalled and further examined.

1483. *Chairman*: You gave us yesterday an account of the activities of the acceptance houses and the issuing houses?—Yes.

1484. And I think to-day you are prepared to deal with exchange questions—your foreign exchange department?—If I might, Mr. Chairman, I would like to adjust somewhat the statement I made with regard to the acceptance houses and their attitude with regard to issues and the type of issue which they make. I think I said that owing to the fact that they had to keep their funds very liquid they could not father an industrial enterprise to the same extent perhaps that a joint stock bank did, because they could not give them cash advances, or they should not.

1485. They cannot lock up their money?—No. I think I did say that. Of course, if they were approached by British companies—industrial companies—they would be very happy to issue bonds and debentures and so on if they were first-class, but a great many of the English companies did not come to the issuing houses; they went generally to their bankers. Of course, that does not apply to all of them. I should have added that to-day a great many of the issuing houses have alongside them finance companies, just the same as the New York City Bank and so on have their New York City Company—on a smaller scale, of course—and that enables us to undertake certain issues which we could not do alone. I have to-day got out a list of issues that my own firm have made in recent years, to try and find out the sort of percentage of English and Colonial issues that have been made by us. I do not know whether it is typical, or whether it is not typical, but I do find that so far as English industry is concerned, we have placed £24,000,000. I do not mean to say that we have made issues of that amount, but we have done a great deal of placing. We have purchased from English industrialists and have placed with our own clients and through agencies with which we are in close touch.

1486. Does that mean the provision of new material for industry?—The provision of new capital.

1487. How are you brought in in a matter of this sort?—One of the firms for which we did a great deal in that connection was the firm of Lever Brothers. I think we placed altogether something like £15,000,000 of their securities. We did not issue those ourselves, although we procured underwriting for part of them, and part of them we purchased and placed. Of course, Lever Brothers control, as you know, businesses all over the world, but I class them as an English industrial concern because they are domiciled here. I do not know in what other class to place them.

1488. To what period does that figure relate?—All that has been done since the War. Then, I find we have issued some £19,000,000 or £20,000,000 of colonial stocks, mostly Canadian railway debentures—that is not since the War, but before the War—and about £45,000,000 of foreign stocks; that will give you an idea of the division. £24,000,000 of home issues, £19,000,000 to £20,000,000 of colonial, and £45,000,000 of foreign. So that, as a matter of fact, it is almost exactly equal—perhaps £3,000,000 more foreign than home and colonial.

1489. With regard to foreign loans, have you carried your analysis further to see how far they were loans of a financial character or loans for works?—No, it would take a considerable time to find that out. I thought perhaps I had misled the Committee. I would also like to say that actually at this moment we are in process of reconstructing a very important electrical enterprise in this country. We have got out the scheme ourselves for its reconstruction—I am not sure whether the contract is signed, but it is on the point of being signed—which entails the writing down of a considerable amount of the ordinary capital and the preference capital, and the turning of some of its debentures into preference shares, and a general rearrangement of its whole financial structure. We are finding with our friends £750,000 of new capital in ordinary shares, which is, in my opinion, the only really proper way of reconstructing companies that are in trouble—by putting the new money behind and not issuing new debentures, which I believe to be fatal. That money will be found by us and our friends; there will be no issue. There is no public recommendation of this; we and our friends are putting up our own money and taking a certain amount of risk. That is, as far as we are concerned, I say quite definitely, rather a new departure.

1490. It has not in the past been the practice of issuing houses to take a hand in the reorganisation of an industry?—I think it has not; I think one can say definitely, as a general rule, it has not. As I say, this tendency to have alongside the issuing houses these finance companies does enable us to do more in that sort of direction than we otherwise should be able to do.

1491. Take the instance to which you are referring: Are you doing it directly through Lazard Brothers or through a finance company?—We have undertaken the whole of the work. It is actually done through our office.

1492. Not through a finance company?—Not through a finance company; all the work has been actually done in our office. I think the reason we ourselves and some of the other acceptance houses may be departing a little in these times from our usual practice is that we are anxious to do it. We feel that the situation is a difficult one, and that it is the duty of every single one of us, if we can do it without impairing our efficiency or our credit in other directions, to take a hand and do what we can.

1493. Do you know whether any of the other issuing houses are doing the same?—I think they are quite definitely. I would sooner not mention names, but I am sure they are.

1494. This is a new departure?—It is a new departure for acceptance houses to undertake anything in the nature of reconstruction themselves; definitely to take hold of a company and reconstruct it.

1495. That is one of the matters which seem to me to be very germane to our inquiry, because it is a new departure on the part of your branch of finance to help industry?—Of the acceptance houses. There are other houses which are definitely finance houses, and not acceptance houses, who always have done this kind of business.

1496. I was struck by what you said about your critical attitude to the undertaking in giving a hand in that way. You had insisted, I suppose before you gave new money, that what I may call dead-wood was cut out?—Dead-wood, undoubtedly.

1497. And that the industry must start on a fresh and healthy basis before you put new money in?—That is so.

1498. Have you found in your investigation of propositions put before you that various industrial undertakings in this country are hampered by the existence of dead-wood of that sort, that must be cut out?—I think, undoubtedly, in a great many cases it is so. They are often overweighted by debentures, and they have been slowly bleeding to death; they have been paying their interest on debentures—as they have got to do—out of capital, because they have had no earnings to pay it out of, which is certain death in the end. I think a great many of them have slowly bled to death in that way.

1499. In your view is a drastic operation better in those circumstances?—Definitely, I think. The whole tendency of American practice is for bonds and debentures of industrial companies to disappear, and only to have preference shares and ordinary stocks, which enormously enhances their credit; they have no mortgage on their assets. It is undoubtedly the most healthy way.

1500. *Sir Thomas Allen*: In assisting reconstruction what is the nature and measure of the control that you exercise over the industry?—That would, of course, vary according to the circumstances, but in this particular case our friends and ourselves will control it.

1501. *Sir Walter Raine*: Can you tell me if you are seeking business of that kind, or has it come to you?—This business has simply come to us through the people happening to be friends of ours.

1502. Does it mean that any of the ordinary banks would not take that particular class of business?—No, I do not think it means that. Somebody has got to do these things. This particular one came to us. The Company would probably, I suppose, in the ordinary course have gone to its banker, who might have put it in touch with an ordinary finance house, as opposed to an acceptance house.

1503. *Chairman*: Supposing you put your £750,000 of new money into this undertaking and start it on a healthier career, what safeguards are there against the business getting back again into the same unhappy position?—There are no safeguards, unless you bring in certain new connections, new features, and so on, and, of course, reconstruct the Board and the organisation.

1504. New intelligence?—Once you are in control you can do what you like as far as personnel is concerned, which is very important. Mr. Newbold mentioned the Newcastle Electric Company. We have always done all their finance for them.

1505. Apart altogether from the general position of the issuing houses in the financial system of this country, I should like to hear from you how far you think the issuing houses can take a hand in the assistance of industry in this country. You have told us of this new departure which you happen to have embarked upon yourselves, and it is no doubt advantageous, but how far do you think industry can look to the issuing houses as one of their sources of aid?—I think as far as reconstruction goes the issuing houses probably can play a considerable part. I think they can recast the structure of the capital and examine and decide what is necessary from the financial point of view to make the company successful in the future, realising that amalgamation alone means nothing.

1506. They may act first as consultants, so to speak, and secondly, after they have pointed out what is wrong, they may render further practical aid by bringing in financial assistance, on condition that what you have prescribed is followed?—Quite; but obviously the company must have its own joint stock bankers who, if it wants a cash advance, will presumably give it them. That is the part we cannot do; but we can, and I think we should, help as far as we possibly can in framing up reconstructions. Whatever knowledge and experience we have should be at the disposal of the community, and, as I say, this new system of having these finance companies alongside us makes it easier for us to do that.

1507. *Mr. McKenna*: You noticed probably in the Press a strong claim expressed recently that the joint stock banks should take a leading part in the reconstruction of industry. Would you think that such reconstruction is properly the work of a joint stock bank or the work of a finance house or an issuing house, or in some cases, such as your own house, an acceptance house?—I should say that the actual recasting and reconstruction and the examination of what is necessary in bringing in certain other elements and so on—all that side that you may call broadly reconstruction—is better done by somebody outside like a finance house. I think a finance house probably has or should have, better facilities for that and better experience than a joint stock bank. Where banks can play a part is in giving a helping hand and not being too sticky about taking junior securities in payment or part repayment of frozen advances instead of senior ones and so on.

1508. I am only asking whether the initiative in taking the leading part is properly the function of the bank or the function of the finance house or issuing house or acceptance house?—I think it is definitely the duty of a finance house.

1509. When the scheme is brought before the bank then in your opinion it would be the function of the bank to find such finance as might be necessary for a temporary purpose rather than a permanent purpose?—I think that is so.

1510. *Chairman*: The true function of the bank is not to finance permanently, but to provide ordinary current financial requirements?—Yes, but I would add this, that if somebody takes a reconstruction in hand and the industrial concern is already indebted to its bankers, the bank can enormously help by being broadminded in its view of what it can or cannot take in exchange for that debt.

1511. *Mr. McKenna*: Have you had experience of recent reconstructions of the kind you are speaking of; do you know of any that have taken place recently?—I know of several, not that I have taken part in them.

1512. Is it your experience that the banks have been found difficult to deal with when the reconstruction scheme in the finished state has been brought before them?—No, I do not think I can say definitely that that is so. I understand there have been difficulties in some cases.

1513. Do you know from your own experience of any difficulties?—I am only speaking from hearsay. I think there have been some cases recently where quite rightly the bank has had to fight for its own hand and not be put aside.

1514. Have you any particular case in your mind where that has happened—where the banks have stood in the way of a reconstruction scheme going through?—One or two, where the banks have not actually stood in the way, but have caused delay in getting the thing to the point of reconstruction.

1515. There have been negotiations?—Negotiations.

1516. And bargainings?—Quite.

1517. Do you know of a case where the banks have said no?—No.

1518. *Mr. Keynes*: You say that the banks cause things to happen two years later than they otherwise would, rather than hold them up entirely. That is the upshot of what you are saying? (*Mr. McKenna*): Do you know of any case where they have been postponed two years, or any material period?—I have not been intimately enough connected with recent reconstructions to be able to specify the particular period of delay.

1519. *Chairman*: Let us understand, Sir Robert. The position of a bank is that it is a creditor of the undertaking?—That is right.

1520. Now, it does not pay a creditor generally to see his debtor go bankrupt, consequently a bank may be induced to go on supporting an institution which is really moribund in the hope—the possibly forlorn hope—of recovering the debt. It may be that the unhappy position of some industries has been due to the tolerance and indulgence of the bank, which has failed to pull them up with a round turn, and then the bank is in the difficult position of having committed itself and its funds to the undertaking. A reconstruction scheme comes along which involves a large sacrifice and the bank is in the difficulty that if it is to facilitate that reconstruction it has to write off a bad debt. That is the difficult business situation?—That is right.

1521. But, on the other hand, for the prosperity of that business it may be necessary to take that drastic step and the bank may have, like other creditors, to suffer?—That is so.

1522. And must suffer?—And must suffer.

1523. Have you found that to any large extent industry in this country has got into that position *vis-a-vis* the bank, of reluctance to take drastic measures because of the indebtedness to the bank, and the bank, so to speak, bolstering up the undertaking?—That it has postponed rather drastic measures being taken?

1524. Yes?—I cannot speak from my own experience, but I am satisfied from one or two cases that I know of that that has been so. It is perfectly natural, I think.

1525. I think so. But would it, in your view, in such cases choose to take the drastic step?—I think the earlier the drastic step is taken the better. There is absolutely no question, because, as I say, in nine cases out of ten—I am thinking of a particular case which we mentioned just now and in which we are interested—the bank debit has been largely built up by paying a large sinking fund and interest on debentures; it has been gradually built up. As a matter of fact, in that case the bank is not being asked to make any sacrifice. I do not know whether it is very good for the bank that they should not be so asked.

1526. *Mr. Keynes*: Passing away from concerns which are in trouble, take an English industrial concern of good credit but of small size which wants to raise, say, £50,000 on debentures, any larger sum being out of proportion to its scale. Is there any regular machinery through which its requirements can be satisfied?—Well, I am bound to say I do not know of any myself. I think it is a great weakness in the City of London that there is not such machinery. It is very difficult to place small issues. If people come to us with small issues and they are perfectly good we cannot do anything with them largely because the average investor to-day does not like to have anything without a market, and you cannot possibly have a market with £50,000 of stock or £100,000 of stock for that matter; there is bound to be no market in stock and it is very difficult of negotiation in consequence.

1527. Is there any financial trust or financial company which would be prepared to take applications as large as that, with the idea of holding them more or less permanently and then issuing its own securities against a combination of that security and several others of like kind?—No, nothing exists in the City at the moment. I think it would be an admirable thing if something of that kind could be created.

1528. *Chairman*: Amalgamations of businesses would have the result of enabling them to make larger issues, but it may not always be desirable to amalgamate. A very meritorious but small business such as Mr. Keynes has mentioned, cannot at present get this assistance from the banks and it cannot get it from the other houses. Would you favour some system whereby credit could be given in that sort of case?—I think if some scheme could be devised—I must acknowledge I have not worked it out—by which a company could issue its own debentures against underlying debentures it would be a good step.

1529. You would group them in that way and be able to get an issue?—I think it would be admirable if it could be done.

1530. In your view are there some gaps in the financial facilities that are now provided—I quite see that you can handle the big issues and that the banks can deal with their customers who come for financial requirements, but apparently the facilities are not quite complete for industry?—I think for small concerns the probability is that there is something lacking in our financial organisation, otherwise I think the financial organisation of the City as a whole is fairly complete.

1531. We have had some reference to what has been called intermediate credit, that is to say, credit for what is not merely the ordinary seasonal demand which the bank may properly tide the customer over—credit which, on the other hand, is not intended to be permanent capital—but credit such as the case of a shipbuilder wanting financial assistance for two or three years?—I should have said—I think I have put it in my notes—there is one direction where I feel very strongly this country lacks a certain piece of machinery, and that is what one might term the inability of certain industries to grant long credit to purchasers. I am not talking of what might be termed the light industries, motor cars, radio sets or anything like that, nor furniture; I mean the heavy industries like bridge work, big electrical work, ships, railway material, locomotives and those sort of things where America, for instance, is prepared and does give long credit to her purchasers, and in many cases that means they get the orders largely because they are prepared to do that. I think if we had some machinery of that kind available—it would have to be, of course, something large—it would be a great help to our industries. I think some of the electrical enterprises have something of the sort, but, broadly speaking, that type of finance is not done anything like widely enough, in my opinion.

1532. What are the types of organisation in America that undertake work of that nature?—They are generally finance companies allied to the larger industries, and in many cases, of course, the larger industries themselves can give the credit because they are so rich to-day.

1533. They can do it from their own resources; they can wait for their money. But take the case of a man who wants money and is anxious to do the work. Take this customer who says, "I will give you an order, but I cannot pay you for two or three years; it is a good proposition, and in two or three years I will be in a position to pay you"; but the man who has to manufacture the material says, "I cannot wait for two or three years"—how can that sort of thing be met; how can the customer and the manufacturer be brought together? Is it by some finance corporation, who say, "We will examine the position, and if we are satisfied the credit is good we will pay the manufacturer, less something for our risk and the postponement of payment?" (*Witness*): That is my idea. If some corporation of that sort had big enough ordinary capital, first of all it could issue debentures or notes, according to the time for which the credit was required, but it would have to start off with quite a large ordinary capital in order to be able to build on that further credit facilities. (*Mr. Newbold*): Is not that the kind of work which is being done by the Commercial Investment Trust in the States? (*Professor Gregory*): The General Motors Finance Corporation. (*Mr. Newbold*): It acts as a kind of agency on behalf of the whole series of manufacturing concerns; it is a new form of investment corporation that has just come into existence. (*Mr. Brand*): Is not that more on the instalment plan? (*Mr. Newbold*): It is something between the two.

1534. *Mr. McKenna*: I understood you to say that long term credit is usually given by the manufacturer himself in America?—Very often.

1535. In America it is usual, is it not, for the big corporations to distribute in dividends less than we do and to build up reserves more than we do?—I think that is undoubtedly the case.

1536. Do you think the different tax system in the two countries has anything to do with that—the fiscal system?—Yes, I think it has a very great deal to do with it. I have some notes here with regard to that.

1537. *Chairman*: I wish you would develop that; it is very interesting?—There was evidence given on this to the Colwyn Committee. I think I am right in saying that to take, for instance, first of all the reserve funds, those reserve funds are taxed to the full extent at the standard rate of Income Tax and the Colwyn Committee definitely states that the amount of tax that was paid on reserve funds in 1922-23 was £54,000,000, which is a tremendous amount of money. If that money had gone into industry for two years that would have meant £108,000,000 in the industry of this country which has been taken out of it. There is also the whole question of allowances for depreciation and obsolescence, and obsolescence to-day is a tremendously important thing. If you take steel forgings, I understand that anybody who is making steel forgings who put in his plant 10 or 12 years ago, immediately after the War, is out of business to-day because science has so improved that that plant is practically valueless. Unless, therefore, in such a case an allowance of about 10 per cent. per annum for depreciation and obsolescence had been granted by the tax authorities a considerable amount of capital must be unrepresented by assets. In America the Corporation Tax is 12 per cent., which is payable by all companies on all their profits (against 20 per cent. in this country) after due allowance has been made for depreciation and obsolescence—but this question of taxation of industry, in my opinion, largely turns on how the tax collector deals with the question of depreciation and obsolescence. This is fundamental. If a big enough deduction is not allowed for those two purposes the industry concerned is gradually bled to death unless it is very prosperous. In Holland, limited companies are not liable to income tax, but have only to pay 9.05 per cent. on the amount of the profits they are distributing in the shape of dividends and tantièmes. Thus they escape taxation on any amounts placed to reserve. This is a great factor where Dutch industries are competing with us—for their system is a definite encouragement towards sound finance and the building up of reserve funds for the purpose of replacing plant out of earnings and of extending credit to their customers. In Belgium I understand the depreciation allowance is 10 per cent. on machinery and 5 per cent. on buildings—on which, of course, no tax is paid. This is liberal, and, again, is a direct incentive towards sound methods of finance of industry, and towards replacement of plant out of income. These are definite facts which we have got to face—for our industries have to compete against these countries, not only for our export trade but for our home trade, and our industry is penalized, not because adjustment is impossible, but because our methods of taxing industry are clumsy and unintelligent.

1538. We are told that our industry is suffering very much from obsolete plant and we are exhorted to cut out all the old plant, as the Americans do, and get better plant. But if that is not recognised by the tax collector, then a motive for bringing your plant up to date is wanting?—I think that is so.

1539. Is that the point you are on?—That is my point. In Canada, where we have some experience, because we have always had large Canadian interests, the tax collector is very liberal in his allowances for depreciation.

1540. *Mr. Bevin*: What is the comparative allowance between the United States and Great Britain? —For depreciation?

1541. Yes?—That I would like to get. In the short time at my disposal I could not get it, but I think it would be a very interesting subject to follow.

1542. *Chairman*: It really might be put in this way. On the one hand we are exhorted to get rid of obsolete plant and on the other hand another department of State is saying, " Well, if you do get rid of your obsolete plant we will tax you." It may be there are two quite inconsistent principles at work. The tax collector's duty is to get as much as he can out of it. On the other hand, industry's duty is to get rid of obsolete plant?—I am not talking of its incidence but of its application. We have all got to pay the taxes, but if taxation is not applied extraordinarily carefully in industry as far as allowances are concerned it must end in bringing these concerns into financial trouble.

1543. A given amount of money is raised by taxation and the method of its raising may be of very vital consequence to the country. If you take less from one source, you need to take more for another, because £X has to be found from some source or other, but the method of raising might be such as to be a serious impediment to industry. The point you are on now is that the revenue system of this country may have unfortunate consequences to the efficiency of our business. Is that your point?—That is my point, may have very unfortunate consequences to the industry of this country, and one has to face the fact that our competitors are treated in an entirely different way and, therefore, to that extent you penalise your people compared with the way their tax collector penalises our foreign competitors. To the extent of that difference you are——

1544. At a disadvantage?—Giving your foreign competitors a bonus.

1545. *Mr. Bevin*: You would have to get the same amount of taxes some other way?—You have to get the same amount of taxes. We are not complaining of the amount, but let us do it in such a way as not to kill our industries which are the life blood of the country. If it has got to be, let the individual pay more.

1546. *Chairman*: If industry becomes more prosperous and larger profits are made then, of course, the Revenue can get their money, but as things are the Revenue may cut its own throat?—Absolutely.

1547. On the other hand the sum to be obtained might be obtained through the growing revenue of the country which would result from greater efficiency in our plant?—That is so.

1548. I think you were going to say something about foreign exchanges, were you not?—Yes. There is not a great deal to be said about them. The foreign exchange business before the War was practically all done by the acceptance houses and the foreign exchange dealers.

1549. You might describe what foreign exchange business means?—It is simply purchase and sales of other countries currency and our own. It was not a very big business before the War and was confined, as I say, to a few acceptance houses and exchange dealers, who used to meet periodically in the Royal Exchange two or three days a week. That no longer takes place. They used to get together and find what each other had to do, and carry out their transactions.

1550. What is the purpose of purchasing foreign currency—to pay debts?—It is the adjustment of trade between the two. It is really the sale and purchase of those bills that we were talking of yesterday. After the War, of course, the volume of foreign exchange became very large indeed owing to inflation, and the joint stock banks quite naturally formed their own foreign exchange departments, and the general market in foreign exchange became very large in this country. As the foreign countries got on to the gold standard, of course, the interest in the business and the profit in it gradually disappeared, until to-day when you may say there is very little compared with 3 or 4 years ago—there is a big volume all the time but the profit on it is very very small, because the fluctuations are within narrow limits with the exception of a country like Spain that will not go on to the gold standard, and, therefore, is the prey of everybody who wishes to speculate in foreign exchange.

1551. Have you considered the question of the resumption of the gold standard in this country and its effect on the supply of credit? How far has the position since we resumed the gold standard been characterised by abnormal features?—In considering the question of the gold standard and its effect on the supply of credit in this country one has to remember that the whole situation has been an absolutely abnormal one, therefore one should not look at the past few years since we went on to the gold standard as proving a very great deal in this connection.

1552. What are the abnormalities that you have in mind?—For instance, since we returned to the gold standard there has been a period of very great inflation in France. The same in Belgium. You then had the ultimate stabilising of the currency of both countries in each instance; in Belgium's case on a basis much below the basis of world prices; and you got an accumulation by France later, after her stabilization, of very large sterling and dollar balances in London and New York. Then you have had the immobilisation in France of large accumulations of currency owing to the arrangements of the Caisse d'Amortissement; the total accumulations at one time reached 10 milliards of francs, £80,000,000. That was totally immobilised; that caused a shortage of currency in France and compelled French nationals to draw their foreign balances to supply their needs from London and America. One also has to remember, and I think this is a very misleading factor in regard to the French situation, that you have a nominal Bank Rate of 3½ per cent. but actually that governs a very small volume of transactions in France, and the real rate for loans has been about 6 per cent. or 7 per cent. People wonder why, with 3½ per cent. Bank Rate, she still takes gold and so on with apparently a lower rate than ours, but it is not a lower rate because it governs such a small number of transactions.

1553. *Mr. Keynes*: Is it still 6 or 7 per cent. to-day?—It is still about 5 or 6 per cent. in France. Then, of course, one has to remember that the imposition by France of a 4 per cent. stamp on all foreign bond issues and a 25 per cent. coupon tax on foreign issues, as against an 18 per cent. coupon tax for domestic bonds, has practically put her out of business, as far as making foreign issues is concerned. In addition to which there has been a virtual prohibition of all foreign issues in France, and that has thrown the burden of foreign borrowing on America and ourselves.

1554. Is that still so?—Well, it is not a rule.

1555. *Mr. McKenna*: That has been abandoned, I think, quite recently?—Up to Monsieur Tardieu's coming into power, I think I am right in saying that there was a practical prohibition.

1556. It is, in fact, abandoned at the moment?—That has been altered and a Bill has been brought in reducing the 4 per cent. stamp to 2 per cent. It was hoped that the 25 per cent. coupon tax would also have been altered to 18 per cent., but that has not been done; they are going to discuss it in Parliament shortly in France, and I have very little doubt that, during this year, it will be reduced, but at the moment they have only reduced the stamp to the same level as our own.

1557. *Mr. Keynes*: Is that actually in operation?—That actually has been passed.

1558. *Mr. McKenna*: The 2 per cent.?—The 2 per cent. actually is in being. It has been passed by Parliament. I do not know whether all the necessary steps have been taken. Then, as I think I explained yesterday, they had also hoped to get the Bill stamp reduced from 3s. per cent. to 1s. per cent. That, I think, will come a little later, but, for the moment, it is a great thing to have got the 2 per cent.

1559. *Mr. Keynes*: Have there been any important foreign issues in Paris in the last year?—None of importance. Within the last 18 months there has been a small tranche in the Roumanian and Polish loans—I think it was 2,000,000 Roumanian and 1,000,000 Polish.

1560. *Mr. Brand*: The Polish was only £200,000?—You understand it was impossible with the 4 per cent. stamp, it made it prohibitive.

1561. *Chairman*: What was the reason for the policy of prohibiting foreign loans in Paris?—It is difficult to say. I think really she did not want to make any foreign loans until she had made her Reparations Agreement.

1562. *Mr. McKenna*: It arose at the time of the flight from the franc?—Yes, but even when she knew she had very big foreign balances and was in a perfectly easy condition, she still kept prohibition up, I think largely because she wanted to get her debt situation settled; she could not tell until comparatively recently whether she had to pay that big amount of 400,000,000 dollars to America.

1563. *Chairman*: It was not with a view to obtaining money for French industrial undertakings, was it?—That may have been so, but I do not think it played a big part. She had done her big reconstruction several years ago, immediately after the War, when she was handing out money to all the devastated areas.

1564. *Mr. Keynes*: Is there a good prospect of foreign issues being made in Paris in the near future?—I think there is quite a good prospect. Personally, I hope that Paris will play a very big part, as she used to do before the War. She was a big lender abroad, as you know, particularly to Russia, unfortunately for her, while she did a lot of other lending.

1565. Would you say there is anything in this calculation? France is getting Reparations of, I think, between £40,000,000 and £50,000,000 a year; she probably, from her previous foreign investments, has a balance in her favour, apart from Reparations; so the total balance in her favour might be considerably more than £1,000,000 a week.—Are you talking about tourist trade?

1566. After allowing for all that, the balance in her favour, if she does not invest abroad, may constantly exceed £1,000,000 a week?—I have not studied it; I would not like to give an opinion.

1567. *Mr. McKenna*: Would you have put the figure higher?—I should; I should have guessed a much higher figure.

1568. *Mr. Keynes*: If France does not invest abroad, quite apart from any repatriation of her present large foreign balances, it means she will be importing possibly about £2,000,000 of gold a week, and that will happen for an indefinite period?—Unless she leaves her balances abroad.

1569. And those balances are already at a very high figure?—They are already at a very high figure, but I think there is no question myself that she will definitely come in herself as a lender.

1570. The look-out is very desperate until she does?—I agree, and that is one of the points I want to make, that, in reviewing this period since we have gone on the gold standard, you have to take into consideration all these abnormal things that are happening in the world, and this is one of them that has got to adjust itself, or be adjusted.

1571. *Chairman*: And, of course, these things are not under our control at all; we are subject to their tender mercy?—Unfortunately not. And, of course, one of the difficulties, in my opinion, is that these points that we have been discussing are so largely the result of ignorance, not deliberate, but the result of ignorance.

1572. *Mr. McKenna*: Is not the possibility of France taking gold the trouble?—Yes.

1573. Would that possibility be open to her, at any rate, so far as we are concerned, if we had not gone back to the gold standard?—I beg your pardon.

1574. If we had not gone back to the gold standard, that possibility would not have been open to her, so far as we are concerned?—I agree, but there are a great many other things that would have been shut to us.

1575. *Mr. Bevin*: What would have been the alternative evils if we had not gone on the gold standard?—Nobody else would have gone on the gold standard, and you would have had inflation everywhere which, in my opinion, is the worst kind of competition that industrialists can have. The worst kind of competition that industry can have is inflation in foreign countries, for this reason, that you never know from day to day what the exchange is going to be, and no man can make his plans. I think the industrialists in our country, before these other countries went on to the gold standard, suffered very considerably. They all complained of it. You cannot have it both ways. The only way of stopping that inflation in foreign countries was for England to set the example. Then you get a basis that is going to remain, whereas, if you get an unstandardised currency, the currency may have no basis the day after to-morrow.

1576. *Chairman*: You want stability?—Stability is what is necessary.

1577. *Mr. Keynes*: Looking back, after what has happened, would you say it was wise to go back to gold at pre-War parity, or would you have done it at a lower figure?—I think personally it was wise to go back to pre-War parity.

1578. Nothing that has happened since has modified your view?—No. Whether the actual moment we went back was right, I am not a sufficient student of the situation to say, but it was right to go back to pre-War parity, looked at from the broadest point of view.

1579. *Mr. McKenna*: Would you not also say that we had a very great interest in going back to the pre-War parity? We are great creditors of the world?—I cannot imagine that our credit could have survived if we had not.

1580. We have owing us £4,000,000,000; that £4,000,000,000 is not payable in gold but sterling; if we could have been paid in depreciated sterling, it would have been so much less?—That was the case.

1581. *Professor Gregory*: Is there any evidence that whilst the embargo on capital issues has been in operation in France, there has been a certain amount of French buying of North American bonds, and so on, through London or New York?—There has been a great deal of French buying of American securities. I think they have taken a much bigger interest than they have ever done before. That may, of course, have been caused by the fact that the whole of the world's attention was drawn to the New York market, but there is no question they have made considerable investments there. France has also made very heavy investments through the medium of Swiss banks.

1582. Have you any reason to suppose that the embargo on new capital issues has been very much more successful in France than it has been elsewhere?—I should say it is probably more efficient in France than it is here, because I think we have much closer association with all sorts of people in foreign countries than they have. They are more isolated. I do not think they have anything like the same number of connections.

1583. Except with the United States?—Except with the United States, and even there they have not got it to the same extent.

1584. *Mr. Frater Taylor*: Is any Government consent necessary to the issue of foreign loans in this country?—I do not know that it is absolutely necessary, but I think everybody who wants to make a foreign loan would naturally discuss, let us say, with the Bank of England, what should be done, whether it is a suitable time, or whether it is not desired.

1585. Do you think it would be possible to develop the equipment trust business in this country on American lines; that is, for railway equipment, and so forth?—I should say it would be perfectly easy to issue equipment bonds. I think you could very soon educate the people to take them.

1586. Would not that be a means of developing new business and helping the iron and steel industry to make larger wagons, for instance; we are still in the era of small trucks for coal and iron ore, and things of that kind?—I think the railways have taken up this attitude, that their credit is so good that they do not need to pledge any particular part of their property for any of their securities.

1587. That may be true, up to a point, but if they wanted to modernise, they could make a beginning with a new thing like that. It is a possibility?—A definite possibility. So far as the public are concerned, I think it could be done with the greatest ease, and it would be an admirable security.

1588. *Chairman*: I am afraid some of the members of the Committee have to leave. We do not want to miss what you have got to say, Sir Robert. There are still some topics which we could discuss, and that I should like to hear you upon?—If I may finish my list of the things that have been exceptional since the gold standard started: There is a large demand for credit with Germany at very high rates, with ample security. That is due to Reparations. That is a very special feature which we have never had before, and while that will, no doubt, continue for some time, it is understood that France already has commenced to lend fairly freely to Germany. As soon as the first tranche of the Reparations Loan is due, I understand she may lend on a very large scale to Germany, which should bring down rates in Germany, and, therefore, this particular feature may not vanish but get less acute. In my opinion, it is a situation like that—the big variations of rates, the difference in rates between London and other centres—which has made the movements of short money so large. Before the War, the variations of rates between one centre and another were there, but they were ½ per cent. or 1 per cent., or something like that; but in Germany the rates offering have been abnormally high, and in America it has been exactly the same—as I said yesterday, you had 8½ per cent. for call money for nine months on the average. All that has been very disturbing to the general situation; it has meant big movements of funds. Of course, this vast speculation in New York, again, has been a very exceptional feature, and one hopes that that will not occur again. All these things have tended to make the period since we have adopted the gold standard a very exceptional and, in my opinion, an abnormal period. We have had to fight against all sorts of difficulties, and I do not think that one can take that period and judge the future on that basis.

1589. As these abnormalities disappear and we get back to more normal conditions, we shall be able to appreciate more fully and accurately the real effect of the return to the gold standard. We thought we might have exhausted your evidence to-day, Sir Robert, but I do not think we will. Would it be convenient for you to give us another hour some time on the remaining topics?—Certainly, Sir, if you wish it.

1590. I think we obviously do. Your contribution is most interesting and very practical. We are going to adjourn to-day until the 6th February. Could you give us an hour that afternoon, do you think?—Yes, Sir. (*Chairman*): Thank you very much. We will see you again in a fortnight's time.

(*The Witness withdrew.*)

(*Adjourned until Thursday, 6th February,* 1930, *at* 4.30 *p.m.*)

TENTH DAY.

Thursday, 6th February, 1930.

PRESENT:

The Rt. Hon. LORD MACMILLAN, *Chairman.*

The Rt. Hon. LORD BRADBURY, G.C.B.
The Hon. R. H. BRAND, C.M.G.
Professor T. E. GREGORY, D.Sc.
Mr. J. M. KEYNES, C.B.
Mr. LENNOX B. LEE.
Mr. CECIL LUBBOCK.
Mr. J. T. WALTON NEWBOLD.

Sir WALTER RAINE.
Mr. J. FRATER TAYLOR.
Mr. A. A. G. TULLOCH.

Sir FREDERICK LEITH-ROSS, K.C.M.G., C.B.
Mr G. ISMAY, *Secretary.*

Sir ROBERT M. KINDERSLEY, G.B.E., recalled and further examined.

1591. *Chairman*: We are much obliged to you, Sir Robert, for coming back this afternoon. You may recall that you had been dealing with the position in France and elsewhere as affecting the monetary position in this country. I think you will probably have some observations to offer to us upon the effect of the German and American position. You might quite shortly give us your view as to how far abnormal causes have been at work of late?—I think that these particular points arose in regard to the question of the gold standard.

1592. Yes. The gold standard has been restored, and some of the phenomena that have ensued have no doubt been due to abnormal features in the international position. I think you have some observations to make with regard to the French position, but there have also been abnormal features in Germany and the United States, and how far those have, so to speak, disturbed the natural working of the gold standard is a subject of general interest?—Shall I deal first of all with the American situation? Owing to the very extreme speculation which was indulged in last year and which, owing to certain actions taken by the Federal Reserve Board caused the call money rate to go to very high figures and remain there for some nine or ten months—owing to that, quite naturally, an enormous amount of short money went to America, not only from London, but from every other financial centre in Europe. I think I said before that the average call money rate in New York between January and September was 8½ per cent. That was for Stock Exchange money.

1593. So that the tide set in towards America strongly?—And the security which was offered was perfectly good, and ample margin also was offered. After a lender had provided for a commission to the intermediary in New York, who would lend money for him, and after he had provided for covering his exchange, he was still left with a very high return. That cover of exchange and commission payable to the intermediary would at the most be about 1½ per cent.; so that you would still be left with seven per cent. net on an average for a period of nine months on money at call any day. That, as I say, not only applied to London, but to all the other centres of the world, and that threw on to London, apart from the burden of losing her own money, the burden of those other countries who had also lent money and looked to London for assistance. Apart from that particular feature, which only lasted for about a year in its extreme form, there is a general situation in regard to the fixing of rates by the Federal Reserve Bank in New York. As everybody is aware, the gold holdings of America are very large, very ample. The ratio varied mostly between 70 and 76 per cent.

1594. That is the actual ratio as contrasted with the legal ratio?—Yes. Had such a ratio existed in this country there is no doubt at all that money would have been very much cheaper than New York allowed it to be. In other words, although New York professed to be on the gold standard she really never allowed the gold standard to work properly in accordance with the movement of gold in her direction. Her reasons for that, as I understand them, were entirely domestic. She felt that if she allowed her money rate to decline she would so stimulate the speculative tendencies of her nationals that she would have a very violent speculation, and also, she was afraid of increasing the prices of commodities. There was one other argument which she used which was international in character, and it was this: That as several countries were on the gold exchange standard, and as they were keeping large balances with her—in other words, that their foreign exchange balances were largely kept in New York—because of that she had to insist on a very much larger ratio than she otherwise would do. I think the answer to that was, that as long as she kept rates high it was only natural that people should keep their balances with her. If she dropped her rate those balances would not have been there, they would have been more distributed, and more of them would have been with us in London. But I personally never felt that that was really a serious argument. My point is that she had subjected the international situation to her domestic situation; and so far as the gold standard is concerned, if every country did that it could not possibly work. And in so much as America was such an important creditor nation and such a large holder of gold, her action in keeping up money rates compelled the whole of the rest of the world to keep their rates up.

1595. Is the inference that you ask us to draw from that this—that if the gold standard is to work effectively it can only be done by some method of co-operation or consultation among the gold standard countries?—In my opinion there ought to be—how it is to be attained I cannot suggest exactly—some measure of agreement or understanding between those countries that are on the gold standard in regard to this question of rate of money and ratios; that is, if every country is going to have its own idea of the ratio, and demand a certain rate, and if its considerations in regard to that are going to be governed by its domestic situation and not by the international situation then I think there is bound to be trouble. But I feel sure that some sort of common rules of the game, so to speak, for the gold standard should be laid down in regard to this question of ratios.

1596. And each country should play the game?—Each country should play the game; if they do not, the thing cannot work. And one has to remember that America went on her bended knees, almost, to the rest of the world to adopt the gold standard—after the War she was always pleading for everybody to adopt it—but no sooner had she got them to adopt it than she refused to allow it to work. That, in my opinion, can be adjusted by conference and ultimate arrangement.

You asked me with regard to Germany. The exceptional situation there, of course, was due to Reparations and to the disaster which overtook German currency, and the fact that those two things necessitated her being a very large borrower of money. Rates in Germany have been exceedingly high owing to her needs and owing to the fact that there was a certain lack of confidence on the part of some people who did not wish to lend her money—notably, of course, in the last two or three years a country that might have lent her money, but has not done so until quite recently, is France. France is now lending her money. Germany's condition was abnormal owing to Reparations and the doubt about her credit which kept her rates up. Those who understand the situation and were in intimate touch with Germany were able to get very ample security for the loans which they made through the large banks in Germany, whose credit, I think, everybody will agree is excellent. You could lend Germany money not in marks but in sterling or dollars; she was willing to borrow in sterling or dollars and then herself do the turning of these currencies into marks. Therefore, you need run no risk in regard to exchange. The natural result of that was, I think, that as this country's connections with Germany were probably more intimate and more widespread than any other country's, except perhaps the United States—I should say closer than theirs—these high rates offered by Germany attracted a considerable amount of short balances from this country. The difference in the rates was so large—the margin compared with the London rates was as much as 2 per cent. and sometimes 2½ per cent.—that it was only natural that a good deal of short money should reach her. That situation is passing away. Money rates are much easier in Germany. France has commenced to lend quite largely to Germany and will lend still more largely when the first tranche of the reparations loan has been made, which will probably take place in May. That is having the effect of easing the situation there and in my opinion the differences in rates which have existed and have had a disturbing effect for us as regards the gold standard will gradually become much less excessive.

1597. Then. I take it, the general import of your evidence on this branch is that it would not be fair to judge of the operation of the gold standard by the experience of the last few years because of those abnormal features to which you have drawn attention. On the other hand, if gold is to operate as an international regulator of stability, are there any expedients that occur to your mind whereby abnormalities of that sort might be avoided or eliminated; or is it simply a question of international cooperation?—I think it is largely a question of international co-operation, but with the exception of America, where one hopes for some different attitude with regard to money rates and the international obligations of any country that is on the gold standard—my argument is that these other difficulties are passing away.

1598. But America is a very big one?—America is a very big one I agree. In fact, it is a dominating one.

1599. If one member of the team will not play the game it is rather disturbing, is it not?—I personally think it is.

1600. *Mr. Keynes*: Would you not say that France also has subordinated international to local considerations in her recent policy?—Not with regard to money rates. In shutting her issue market no doubt she has made the international situation much more difficult.

1601. But was she not maintaining a rate for advances which was equal to or above the London rate at a time when she was drawing to herself an amount equal to the output of gold of the whole of the world for a year?—I agree that her Bank Rate governs a very small proportion of the whole. Her trade rate is always considerably higher than her Bank Rate. To that extent she may be perhaps guilty of not having a sufficiently international outlook.

1602. *Mr. Newbold*: Was she not very largely bringing her own gold back again, plus the profit that she had made on her international transactions?—Yes, but I think the same might be said of the American gold; it was their own gold, the result of their own transactions. I do not think there was any difference in the quality of the possessions.

1603. *Professor Gregory*: Would you agree that the danger with regard to the Federal Reserve system is that American public opinion is becoming accustomed to a very high reserve ratio?—That is so.

1604. The Federal Authorities are not acting as free agents in that matter?—I think it is a great danger to educate people up to thinking that anything approaching a 74 per cent. ratio is a necessity. If I may go back to the question of France, I think there is one thing we have to keep in mind with regard to France. That it was almost inevitable that her actions should be largely governed by the fact that she had not come to a settlement with regard to her war debts. She was always keeping that in mind, and she had certain big obligations in America which she might have had to meet, but which she did not have to meet.

1605. *Mr. Keynes*: That did not apply after June, 1929, did it?—Somewhere about that time. Up till June, 1929, she had that always in front of her, and I think one can hardly blame her for not being normal, or not attempting to be normal, before that date. Since then she has been making, as we all know, considerable efforts towards being able to enter the international issue market. I would like to adjust something I said the other day. Since I was here I have been in Paris, I only came back two nights ago. At the last meeting I think I told the Committee that I thought it was almost certain that the coupon tax would be adjusted during this year. I am sorry to say my latest information is that there are very great difficulties in regard to the reduction of that tax. It does not look now as though it would be reduced this year, and until it is reduced I do not think France can expect to enter very freely into the loan market.

1606. *Chairman*: What is the order of the amount of gold that France has attracted, let us say within the last year? Have you any idea of the figures? Of course, they are very much less than America?—I am afraid I have not those figures. (*Mr. Keynes*): Seventy millions. In two years more than the whole of the gold output of the world.

1607. *Mr. Brand*: Would you not say that over three hundred millions for France is, in view of the gold situation of the whole world, nearly as extravagant as six hundred millions for the United States?—Well, I think one has to recognise in regard to France that her banking facilities are much behind the times, and that her business community very largely settle their debts in notes still.

1608. *Mr. Keynes*: Why should that mean a larger gold reserve?—I think it is agreed that where banking facilities are much greater a much smaller amount of currency is required.

1609. That was true when gold was in circulation, but now that gold does not circulate is there any reason for keeping a larger gold reserve?—You require more currency obviously.

1610. *Professor Gregory*: But not more gold?—Not more gold.

1611. *Mr. Keynes*: France has also a very large quantity of foreign exchange. The Treasury and the Bank of France together have £200,000,000 sterling?—They had. I am not sure what it is to-day.

1612. If you add to that their gold stocks they are enormously stronger relatively than the United States?—I think they are extraordinarily strong in their gold reserves.

1613. You referred to the observance of the rules of the game in regard to the gold standard. Would you agree that the main rule of the game is that a country should not keep its money rates at a higher level than its neighbours unless that is necessary either to protect its own gold stock or to prevent an inflation of monetary values?—Yes, I should say that is correct.

1614. You would not allow any other reason for raising rates?—No, I would not.

1615. I ask that question because the criticism of the American system is that it permits the operations that we have seen on Wall Street?—Yes.

1616. You regard the raising of rates for that reason as a failure?—I think its failure is patent to everybody, because there you had the biggest speculation the world has ever seen in spite of all that was done in three years to try and prevent it. Four years ago when the turnover of shares in Wall Street was about one million a day they were keeping the rate up in spite of their large ratio because they were afraid of speculation. You got that speculation ultimately up to eight million or six million shares a day. Their refusal to drop rates in accordance with the inflow of gold did not stop speculation. The policy was to stop it, but the policy did not stop it. My argument is that had that speculation been allowed a natural course you would have had the speculation earlier. You would have had your ups and your downs, but on balance I think you would have been better off than attempting to do something which failed.

1617. I think that is right, but it is a hard doctrine for the Americans, is it not?—I agree. There is one point I would say in regard to France One has to remember that in the Report of the Bank of France which was issued two days ago it was definitely stated that France would let gold go again. That is the first time that France has ever said so. Until this last six months France has never been understood to be actually on the gold standard.

1618. That only amounted to a statement that they proposed to keep the law. Under the existing law they are bound to let gold go, and that statement of the Bank of France was merely a belated statement that they would conform to the law?—I do not think they were bound by the law. I think I am right in saying so.

1619. It is the new Currency Law of 1928, and since that law was passed the occasion has never arisen?—In 1928?

1620. Yes?—But prior to that she was not counted as actually a gold standard country.

1621. *Professor Gregory*: I suppose you would agree that the real difficulty with regard to American policy was not so much putting up Federal Reserve rates, but that they always followed the call market and differentiated in favour of commercial loans?—That is so. They differentiated. They wished to retain their prosperity, therefore they kept their commercial rate low; they did not wish it to be interfered with by the speculative rate; but in doing that they retained and stimulated the cause of the speculation and merely put the rate up against the speculator who was carrying his stock, but as the speculator continued to see prosperity nursed and stimulated by a low commercial rate 8½ per cent. did not stop him carrying stock.

1622. But what Mr. Keynes called the hard rule for the Americans would have involved, if there had been no differentiation for call money, a higher rate for commercial loans in the early stages and consequently a check on business. It is not without its effect on business?—No, it has definitely that effect. That is my argument.

1623. *Chairman*: Had the internal credit policy of France any effect on the attraction of gold? (*Mr. Keynes*): You have to include the coupon tax?—Yes. I think the crux of the problem with France is this: As far as the gold standard is concerned and the gold position, she is now a big creditor nation, and she is building up her foreign balances every day. Her only way of getting rid of those naturally is by re-lending them long. What happens is this. Owing to her laws regarding stamp duty and coupon tax, borrowers do not go to her because she is so expensive.

1624. *Chairman*: She is impeding that course?—She is impeding that course and, therefore, there is a great deal of short money to lend because she is not lending long. She lends that short money largely to us. In lending the short money to us she undoubtedly tends to reduce money rates here, to make money easy. She buys bills here on a very large scale, and that tends to make the general money situation easier and actually to push upon us the burden of the long financing which she ought to be doing instead of lending short money to us.

1625. *Mr. Newbold*: Do we get the advantage of it if we get that cheap money here?—To a certain extent it is advantageous, but it would be much better for us if she lent long.

1626. You think it would?—Certainly. There is always a big danger if you have large foreign balances from any one centre which can be withdrawn at short notice.

1627. *Mr. Lubbock*: You have described the drawing of money to America and Germany by high rates during the past 12 months. What effect has that had upon our market here?—It has had the immediate effect, in my opinion, of preventing us from getting gold which would otherwise have come to us, and of diverting the gold to America.

1628. And it has caused a certain amount of difficulty here. If the money went to America and Germany it was not here for us to use?—Quite.

1629. Was that due to any fault in our monetary system; was there anything we could have done to prevent it?—There is only one way of doing it, and that is putting Bank Rate up to make your centre as attractive as the centre to which the gold has gone.

1630. And, therefore, the difficulties and our higher rates were due to circumstances over which we had no control?—That is true. They were in my opinion exceptional circumstances, and I think it will be a long time before they recur.

1631. Though exceptional, they did have this effect?—Yes.

1632. *Mr. Newbold*: Will it not still be necessary for America to continue to draw gold if she is to retain her superiority?—A certain amount of gold will continue to go to her, but she must re-lend to the world.

1633. That will put up the price for her credit at home, will it not, and precipitate a commercial crisis at home? Do you not think if her money rates go up at home it will cause commercial distress and industrial distress at home? Can she go on being a prosperous nation?—There is nothing to prevent her having normal rates, and still lending a great deal of money to the world, because she is now such a large creditor nation.

1634. *Mr. Lubbock*: I think it follows from what you said just now that she might be content with a smaller ratio if people were induced to believe that 74 per cent. was unnecessary?—Yes.

1635. Do you not think that the struggle for a high ratio is a great danger now?—That is so, and that is why I think it is so necessary for Central Banks to get together. Of course, the circumstances of each country are different, but there ought to be some common ground.

1636. *Chairman*: *Some* ratio?—*Some* ratio.

1637. *Mr. Newbold*: Is there any definite reason why the Americans keep such an enormous amount more proportionately?—Well, the natural thing to do with a big ratio is to put your rate down, and then the gold flows out. She would not put her rates down because she was afraid of creating an unhealthy speculative situation in her own country.

1638. *Mr. Brand*: I suppose it arose from the post-War period in which she suddenly got an immense mass of gold, owing to her position as a creditor nation?—I imagine so.

1639. Then she found she had so much that it was difficult to put rates down?—Yes

1640. *Mr. Keynes*: Are you in favour of gold exchange methods as a way of economising the use of gold?—With Dr. Schacht, I was responsible for the drawing up of the new regulations of the Reichsbank, and at that time, as you know, that put Germany on to the gold exchange standard. I think that was justified, because she was not a rich enough country in my opinion at that time to go straight on to the gold standard. I would not care to give a definite opinion. I think this question of whether the gold exchange standard is generally advisable or not is a tremendously controversial subject. In Germany's case I think it was justified, because she had been impoverished.

1641. *Chairman*: The question is whether as a permanent system that system has merits, or whether you regard it as a transitory stage?—I am afraid I cannot give a definite opinion; I have not studied the question carefully enough. It is a very controversial and difficult point.

1642. It is one method?—It is an obvious method. I do not think that at this time, if the gold standard is properly dealt with by all countries, it is necessary.

1643. *Mr. Lubbock*: I think the legal ratio in France is 35 per cent.?—I believe so.

1644. Do you think that in circumstances such as they are now, when gold does not go into circulation but notes are the internal currency of practically every country it is necessary to keep a ratio, or would you be prepared to say that what a country ought to aim at is having the quantity of gold that might be necessary to settle its external balances rather than to keep a definite ratio of notes that might be required in the country for circulation?—I think that is governed by the remarks that I made that each country's circulation must be considered apart. I am not suggesting that you should fix a common ratio, but taking the industries, trading and so on, of each given country, they should agree on as low a ratio as they reasonably can.

1645. *Professor Gregory*: You would agree that it has been a disastrous proceeding, as things have turned out, that nearly all the re-established Central Banks of Europe have copied the Federal Reserve system, and have tied themselves down to a minimum ratio of 35 per cent.? Let me put it this way: it might have been better in restoring the gold exchange standard in Europe to have removed any minimum reserve ratio from the new constitution?—That may be so.

1646. Would you say there should be a special figure fixed for each country according to its exigencies, or would you prefer no fixed figure?—I think the circumstances of each country are so different that you have got to take this into consideration in arriving at some proportion.

1647. Yes. But having taken those circumstances into consideration, and having arrived at what you consider the proper ratio for that country, do you think it should be a fixed figure, or that there should be some provision made for its movement?—A fixed minimum figure?

1648. A fixed minimum figure. Do you approve of a fixed minimum figure being laid down by law?—I do; I think a fixed minimum figure is good.

1649. *Mr. Keynes*: It will be extraordinarily difficult to keep the rules of the game as you have enunciated them if banks will not use the gold exchange method, because circumstances are bound to arise from time to time when a given country finds itself with a large excess owing to it and its only choice it to take gold or use gold exchange methods. I should have thought it would have helped very much if a country finding an unusual balance due to it were naturally to keep that balance abroad?—If it had a very large balance it would still be well over its minimum ratio, and still be able to lend the balance in the normal way. It is only on the gold exchange ratio that it gets below.

1650. So you are quite in favour of a system by which banks keep their existing legal minima in gold, and normally keep any excess over that in gold exchange?—If they wish to.

1651. But would you encourage them to do that as a healthy thing?—I think that, done to excess, it might be very harmful if a country with an excess were to keep too large balances in other countries.

1652. *Professor Gregory*: But the dangerous consequences of that are surely less than the dangerous consequences of encouraging every Central Bank in Europe to keep large stocks of gold which will make them very nervous as soon as they get down to the minimum?—I take the view that the gold standard has this very great advantage, that it expresses the result of the sins or the virtues, as the case may be, of all the inhabitants of a country.

1653. *Chairman*: It is an index?—It is an index, which shows what they are doing; and it is very necessary that it should show what they are doing. It is that anxiety which brings home to them that they are being extravagant and importing a great deal too much or *vice versa*. They see the result of their actions. That is why I do not believe in a managed currency because I do not believe there is any human being who can tell me what the result of the combined actions of 45,000,000 people, or 115,000,000 people in the case of the United States, is going to be. But with the gold standard, when they lose gold or get it, it is a definite expression of the result of what they are doing.

1654. If you take gold as the sensitive index on which you can form a diagnosis, and then you wish to correct the displacements of gold that are taking place, is the only way of doing so by means of the Bank Rate, or are there any other expedients by which the distribution of gold can be brought back to a better level?—Broadly speaking, I think you must have recourse to your rate.

1655. Are there any other expedients?—There are purely temporary expedients, which no doubt you could have recourse to.

1656. As far as I have apprehended, Bank Rate may be the method of correcting the gold position, but, on the other hand, the raising of Bank Rate, which attracts the money, has other economic consequences in the country some of which cause trouble. What I was wondering was whether this remedy, which you indicate as practically the only remedy, has not consequences which are unfortunate?—Yes. Of course, one gets to the conflict between the internal and external situation and I must candidly confess I see no real remedy.

1657. Then you say we must just take our medicine?—I should say we have got to take our medicine, and I believe it is healthy that we should because it is a definite red flag.

1658. No one has evidently thought more than you have of the practical nature of the problems that we are concerned with. You know the Terms of our Reference. We have to look at these problems from the point of view of making recommendations, if we can, to assist industry and employment. As the result of your own consideration and position, have you any suggestions to make to us for any reforms — any ideas that have occurred to you whereby our present monetary system, banking system and credit system might be improved so as to assist industry and employment. You see that is the operative end of our Reference, and I wondered whether you had thought of anything. Supposing you were sitting in my place here and were drafting a Report, would you have any fertile suggestions to make?—No, I am afraid I should not. I look upon the last few years as very abnormal. I think their abnormality is gradually passing away.

The American difficulty is there. One hopes that as they get used to the international responsibility which is now resting on their shoulders, and as they appreciate that more than they are doing, they may give relief as well.

1659. Then you suggest that our Report should be more in the nature of an educational exhortation to the nations of the world?—I am talking purely of the gold standard. As I told you, there are certain improvements in the financial facilities. I think I have spoken of them.

1660. Yes, you have?—But from the point of view purely of the gold standard I see no artificial means of altering or improving that position.

1661. Except a general admonition to play the game?—I think you have got to get very intimate understanding between the Central Banks. Now their intercourse is much more intimate than it has ever been.

1662. We might be of some service, might we, if we were to draw up, or try to draw up, the rules of the game?—I think so.

1663. *Mr. Keynes*: I am very familiar with the objection to the gold exchange standard underlying your earlier answer. Would not that be met if the Central Banks got into the habit of treating their resources in the shape of foreign exchange as a barometer, exactly in the same way as they at present treat their gold reserves? If those figures were published by them in the country to which the balances belonged so that it was a weekly indication, just as the holdings of gold, would it not work exactly like gold? The difficulty at present is that they are very often kept secret and banks are, therefore, willing to submit to fluctuations in their holding of exchange which they would not be willing to submit to in the case of their holdings of gold?—That is quite true, but they all of them have a minimum ratio of gold. That is why they can allow these fluctuations of foreign exchange.

1664. But if they kept their minimum in gold and held the excess in foreign exchange every diminution in the foreign exchange would bring them nearer their minimum, just as the loss of gold?—That is certainly so. Whether the publication of those figures is going to have the same effect as the actual shipment of gold I am not at all sure myself, but I agree in theory you are correct.

1665. *Professor Gregory*: Do you not think that the psychological effects have to be considered? Assuming that the total foreign balances of the Reichsbank fell by a certain percentage per week, do you not think that would have the same effect in the Berlin market as the loss of the same amount of fine gold? Let me put it this way: Supposing they held one hundred million dollars balances in New York and it was known in any particular week that they had lost twenty million dollars, surely that would have the same psychological effect on the banks as the loss of twenty million actual gold dollars?—I should say on bankers it would.

1666. One has to work through the banking system?—Yes.

1667. That is the most important thing, I think?—Yes.

1668. *Mr. Keynes*: Is this really your answer—are you maintaining that the Central Banks of the world are mentally incapable of working in the only way in which the gold standard can be made to work?—I do not follow that.

1669. Is not my proposal that they should treat fluctuations in their foreign exchange in the same way as fluctuations in gold going a long way towards the solution of the problem, or, if you reject that, are you maintaining that the reason for rejecting it is that the Central Banks of the world are mentally incapable of acting in the only way that would solve the problem?—No. My answer, I think, was with regard to the question of the gold exchange standard, that I had not studied it sufficiently carefully to be able to give an opinion. I think I said that, did I not?

1670. Yes?—And I still say that. The particular question which you have put off-hand I answered in the way I did, but I would not like to commit myself on this question of the gold standard, although I agree to the question as put by Dr. Gregory on the face of it.

1671. *Mr. Newbold*: Is it not very risky to use foreign exchanges as a standard of value?—Not with the gold standard countries. You are only referring of course, to the gold standard countries?

1672. Yes?—I personally do not believe that there is the necessity for the gold exchange standard, certainly not at present if gold is properly distributed and each country plays its part. I do not think the necessity has arisen.

1673. *Mr. Keynes*: I think we should all agree that if the United States and France came down to gold reserves comparable with ours it would help us in our economic activities, but there is not the faintest chance of the United States and France coming down to our level of gold reserves.—I do not see why not. France is getting much more liberal in her views with regard to gold. And I think these difficulties of lending are not the difficulties of the bankers or even the people at the head of affairs. The difficulty is that when you get to Parliament you have people who do not understand it, and they cannot get the legislation through; but there is no difficulty at the head.

1674. *Professor Gregory*: I think you will agree that there is very considerable difficulty in the United States?—Yes, there is.

1675. And there is no guarantee that in two or three years' time you may not have another boom even bigger than the last one. That is the real danger. There is nothing to stop it.—That is true, but one would hope that when the next boom comes they will have learned their lesson and will not have two rates.

1676. *Mr. Keynes*: Would you not be sorry to base a system on the expectation of France and the United States coming down in the next five years to our ratio?—No.

1677. You would not say the odds are one hundred to one against it?—No. I think in France the tendency is strong.

1678. *Mr. Brand*: Is not that, so far as France is concerned, because she feels she has tremendous leeway? If she had one hundred and fifty millions of gold as we have, do you not think her views would be very different?—I cannot say. Her whole tendency to-day is very different from what it was.

1679. *Professor Gregory*: But do you not think the real danger arising from the last American boom, quite apart from its effect on the world's rates, is the American legislation which you might have, making the position very much worse than it is now?—I agree, America is a great difficulty; there is no getting away from it. I believe that there it is a question of education, of discussion and ultimate realisation. How long it is going to take I do not know.

1680. *Mr. Frater Taylor*: There is one section of your question, Mr. Chairman, which Sir Robert did not answer. Can we do anything internally to promote the development of trade and commerce through our own internal arrangements? (*Chairman*): Have you anything to suggest, Sir Robert, from the point of view of our internal economy as distinguished from the external position?—As I think I said before, I believe there is a good deal that could be done in the creation of finance companies with the object of giving long credit abroad in connection with our export trade, for the heavy trades in this country.

1681. *Chairman*: It is only that type of thing you think we can do, that is the only suggestion you can make in that direction?—That is the only direction.

1682. I am sure I express what we all feel in thanking you very much for having come. Your evidence has been most instructive. We are very much indebted to you for having given us your time. —I am very glad to have had the opportunity.

(*The witness withdrew.*)

Mr. R. H. FOÀ, called and examined.

1683. *Chairman*: Mr. R. H. Foà, you are a partner in the Discount House of King and Foà?—Yes.

1684. I should explain to you that at this stage of our inquiry we are engaged in examining the different forms of monetary activity of the country. We are studying Central Banking and commercial banking, and we are aware, of course, of the very large part that the discount market plays in the system and the special position which the discount market occupies in London. We should welcome from you a description, in the first place, of the functions of the discount market; how it has come about and what part it plays in the monetary system of this country. A short account of that would be valuable to us if we might have it on record.—With pleasure. I cannot tell you exactly the origin of the discount market. It must be some 70 or more years old; I remember it for 50 years; but the functions of the discount market are more or less easy to describe. To put it very briefly, we are here to serve the banks and to serve the public. We serve the banks by being their second line of defence. Their first line of defence is the cash they have in hand and at the Bank of England. As you know, they lend largely to their constituents in the country for one form of activity or another in trade; they make advances, but those are not liquid assets. What they want from us is absolute liquidity. In this respect I may say that we are only a part of a whole. You cannot separate the Bank of England, the banks, the discount market and the gold standard. We receive money for very short periods, as a rule from one day to seven days, and we buy—or discount, which comes to the same thing —bills as a rule not exceeding three months. There are exceptions, but as a rule not exceeding three months. The banks are willing to lend to us because they know from experience that we have a self-liquidating security to give them, and another very strong point with us is that we have the command, except in times of exceptional crisis (which in my long experience only occurred once and for an hour), of whatever money we want at the Bank of England for a short period. Of course, for us that insurance is an expensive one. We have been buying bills to-day at 3⅞, and in order to supply the lack of funds which occurred we had to go to the Bank of England and pay them half per cent. over Bank Rate, i.e., 5 per cent. for 7 days. Still, it is a security which the banks want. The banks know that if one bank calls £500,000 to-day and another £300,000 and another £200,000, if this money is merely transferred from one bank to another then the chance is that I or some of my competitors will get it back from the other bank; but if that bank, as is the case just now, is paying money away to the Bank of England for taxes, then there is a shortage, and if we cannot find money in the market we simply go to the Bank of England for it. That is the sheet anchor of our lenders.

Thinking that some of the gentlemen here this afternoon were not very well acquainted with bills I have brought a parcel of bills to show the different nature of the bills and the different functions that they perform. Would you like to see them?

1685. Yes—a practical demonstration. These bills represent actual commercial transactions?—Not absolutely all of them. I am going to show you some which do not. *Here* is a bill which is drawn for the import of raw cotton into this country from America. (*Bill handed round.*)

1686. How does that come into your hands. I want to know a little bit about the mechanism?—The man who draws the bill, that is to say, the seller of the cotton, does not want sterling; he wants dollars and cents to pay his workmen and so forth, so he sells the bill to a banker out there at an exchange, receiving dollars.

1687. Is it drawn on the importer in this country? —No, it is drawn on one of the banks—in this instance on Williams Deacon's Bank.

1688. Acting as an accepting house?—Acting as an accepting house under instructions. That bill was sent either direct from the drawer's bank to the Guarantee Trust in London or was negotiated in America, but ultimately it came into the hands of the Guarantee Trust Company of New York's agency here, who, having need of money, said, it may be, "We want £100,000 or £200,000; what is your rate of discount?" and this being agreed we discounted the bills for them.

1689. *Mr. Brand*: That is the Guarantee Trust Company in London?—The Guarantee Trust Company in London. I bought these bills. That bill is in my hands and I may either use it as security for deposit in the hands of a bank, or I may re-sell it in this country or abroad. The great difference which this makes is that if I sell it in this country it is this country which is financing that cotton, but if I sell it to a foreign country the transaction is financed by that country. Foreigners have money here, they want to invest their money with interest and yet have the command of gold, so they buy that bill instead of purchasing gold. Therefore, as long as we have the gold standard here they have got gold plus interest. *This* is a bill for the import of hemp.

1690. *Chairman*: You speak of "buying" a bill? —That means discounting it.

1691. That is to say, you pay for the bill and you get the right to the bill by endorsement and otherwise?—Yes.

1692. And you get that consideration of your furnishing funds—less discount?—Less discount, which fluctuates from day to day.

1693. That is the discount rate?—That is the discount rate; that is what is known as the open market discount rate.

1694. And what determines that rate?—Largely supply and demand, but this may be affected by extraneous influences. If the Bank of England finds that our rate is rather too low and would encourage the export of gold they take steps to check it. There is also the fear that either we may not be able to sell the bill, to re-discount the bill at a profit, or that some action, such as the withdrawal of gold from this country, may so tighten the value of money that we should not make a profit. We do not always discount at a rate which would immediately leave us a profit—far from it. We have to consider what is likely to be the value of money over the average length of the bill. To-day I bought bills at 3⅞ per cent., and I had to pay 5 per cent. for a lot of money for one night, but I think that before the 90-day bill is due the average of money will be below 3⅞. *This* is another bill. This is for hides. *This* one is for food. These are all bills for commodities which are coming for use or consumption in this country.

1695. These bills represent commercial transactions with this country; do they come with the documents attached?—They come as a rule with shipping documents attached to them through the exchange banks. Some of them come from India, the Far East, from the Japanese banks. They come from everywhere. As a rule these bills have documents attached which are given up on acceptance. As soon as the intermediary houses such as Lazard's or Rothschild's or

Schröder's have given the credit to somebody they in turn give up the documents to the consumers.

1696. That enables the goods to be utilised?—At once.

1697. The system is unique, is it not?—Absolutely. In no other country in the world does it exist.

1698. Has it grown up, as so many other institutions have grown up, just because it supplies a want?—No, I think it has grown up because of the English character, shall I say; the complete and absolute confidence that we have as shown by the many millions which we turn over in the course of a month. There is nothing written.

1699. Yes, I understand why that would attract financial business to London, but the feature of your business is that it is a highly specialised function?—Yes.

1700. In other countries where discounting is done it is not done as a specialised function?—No, nor is it as free. You see that the freedom we have is derived from the support we get—from the foreign banks to a certain extent, but principally from the English banks and the knowledge that the Bank of England being behind us we can obtain all the money required with which to carry the bills.

1701. It is the division of functions in this country which is so interesting. You perform a particular function. You are a member of a profession in London that does that, and nothing else?—Perhaps I may explain to you; I think I know how it arose. Before there was this fusion of the banks the banks took very few bills, they took money on deposit from their customers and lent it to us, and very very rarely did they buy bills themselves from the customers. If a bank received a deposit for a certain date, two months, they would say to me or one of my colleagues, "We want bills for two months?" "How many?" "So many hundred thousand pounds." "There they are." But it was left to us to run the bills and take the chance of re-sale or not. Now that has changed. The big banks take a great many bills themselves direct from the Continent. I am sure that a great deal of the facility with which we function, the whole market functions, is dependent upon the fact that when anybody buys an English bill that he knows is good, he knows that he is buying gold. If you buy a bill on France for a certain number of francs they will always pay you bank notes, but they do not undertake to give you the gold, whereas here we do.

1702. How exactly does your clientèle come into relationship with you? How do these bills actually reach you finally, if I may so put it?—A good many come from people we visit every day; others come by post. We have to telegraph abroad saying that our rate for bills is so much and they may or may not send us the bills.

1703. Take the case of a transaction such as you have instanced here, a transaction in cotton. Cotton is sold probably at 90 days or whatever it is, and the bill is drawn on the importer or the accepting house here; is the bill sent to you direct?—That particular first cotton bill was sent to the Guarantee Trust and I bought it very shortly after its arrival here.

1704. I understand the holders of the bill come to you to discount?—Yes, or rather we call upon them. *Here* is a bill for importing sundries—peppermint oil and menthol crystals. This is a bill drawn in Japan on an Australian bank in London for goods supplied to Australia.

1705. The goods never came here at all?—No, they never came here at all.

1706. We were used merely as a financial centre?—Yes, the reason for that is that there is always a demand for sterling and, therefore, if a firm abroad selling is offered a credit here, or in Paris, or Berlin or New York, other things being equal, he would sooner have the disposal of money in England than anywhere else because there is always a demand for it.

1707. In the case of the banks embarking on this type of business they use their customers' money; but when you buy a bill I take it that you employ your own capital?—Oh, our own capital accounts for nothing. Our own capital is so small.

1708. You run entirely on borrowed money?—Entirely on borrowed money; our capital goes as margin. The real value of the bill is in the name of the acceptor, reinforced by that of the endorser.

1709. Then you act as a sort of intermediary?—Yes, we are intermediaries entirely, but we work for our own account. There are times when some of our constituents have said, "We know the market is rather weak, you go and buy for us and do the best you can," but, as a rule, I buy on my own account and work on a very small profit.

1710. You buy with borrowed money?—With borrowed money.

1711. Paying interest?—Paying interest, of course. I buy with the knowledge that if one bank calls money from me to-day it is probably in order to pay to some other bank, and that bank will want to lend to me because it has too much money. It is in this market that we act as intermediary.

1712. *Mr. Brand*: With call money from a bank?—With call money from a bank; but the banks' money is not the only money with which we function. We do a lot of business with Lazards and other accepting houses. They have deposits from all over the world; they do not know when those deposits are going to be called from them; they find at the close of business, about 3 o'clock, that they have got more money than they need and offer it to me. "I take it until to-morrow." But this is the cardinal principle: If he does want it to pay out, unless it goes to the Bank of England or for export it still does not go out of the short loan market, and it is for us to find where it is. *Here* is another bill from Japan to Australia. *This* is one for Hessian cloth from Calcutta to New York and the goods never come here.

1713. *Professor Gregory*: Assuming you turn over some bills to a bank, do you endorse them as a rule?—Yes, with a few exceptions; there are some few banks where you do not, but with the vast majority we have to take the responsibility. Those bills which I have circulated among you are all import bills. *This* is an export bill. This is for machinery sent out to West Africa. Before the cost of that machinery can come back to England it has to be sold in West Africa and the money which is produced will take some time before it comes back, but it will come back to us, not necessarily in money, it will come back in merchandise. *This* is another form. This is for some wool grown in Oxfordshire and sent to Boston; it has gone out for spinning. The function of that is that the people in Boston have opened a credit through their bankers in Boston with Baring's who accept at three months, and will receive cover from their correspondent in America before the maturity of the bill.

This is a very interesting bill, a model bill; this is a bill for the making of beet sugar in England. When the crop is gathered it has to be treated. The raw material has to be paid for, the labour has to be paid for, the cost of the machinery has to be paid for and, therefore, it takes some time to market. In the interval the accepting house gives it credit, and by the time that bill becomes due or is renewed once, the sugar will be ready in crystals, and sold, and the acceptors will be reimbursed.

1714. *Chairman*: The bill repays itself?—The acid test of a good bill is if it liquidates itself.

1715. The function really is to tide over the interval between the despatch of the goods and their realisation?—Naturally. It takes some time. Here is a very interesting bill. *This* is a bill for shipbuilding—purely shipbuilding. The builders naturally want money from time to time to pay for labour and materials and little by little as the ship proceeds in building they draw a certain amount of money upon the purchasers, the future owners.

1716. Is it payable by instalments?—Yes. They want capital to carry on their works, and little by little as they get a certificate from the Surveyor that so much work has been done———

1717. So much when the keel has been laid, so much when the frame is up, and so on?—That is it. That is the most direct form of help for industries that I can show you.

1718. Take that shipbuilding bill. What is the period of currency of the bill?—Six months for that, because after all it has got to take a good year before the ship, from start to finish, can be ready, if then.

1719. I was going to say, it is a long process?—It is a long process. Of course, the price which we charge for discount depends very largely not only upon the actual value of money, but upon what we estimate to be the risk we run. We run virtually no risk in buying bills accepted by one of the big banks or accepting houses, a credit bill, and I have less risk than I have on a shipbuilding bill for which I have only the word of the drawer and the ability of the acceptor himself to pay. That is what we call a two-signature bill.

1720. *Mr. Brand*: What difference in rate do you make for that shipbuilding bill?—The most we can, but I should say very rarely more than a quarter per cent. per annum.

1721. *Mr. Keynes*: With regard to this shipbuilding bill, is it accepted by an accepting house?—No, it is accepted by the intending owner.

1722. Is this re-discountable at the Bank of England?—Now you have asked me a difficult question to answer. The Bank of England as a rule is not very keen on these bills. I daresay if I said, "I am very hard up, I want you to let me have half-a-million; I am going to put in £10,000 of these bills." I do not think they would mind.

1723. You think your name would carry weight?—It would help, but that is why there is a little difference.

1724. Then, would you naturally hold this bill till its maturity, or would you sell it to a bank?—Probably that is a bill I should hold till its maturity. Of course, if one day somebody said, "I want a parcel of bills at such and such a rate," I might say, "That is too high, but if you take with it a few shipping bills I will give it to you." Here is what we call an anticipatory bill; that is a bill from Finland for timber. The timber is felled in the North, they need money to pay for the trees, they need money to pay for the labour, and they know they cannot export the wood because the Northern seas are frozen, so they go to an accepting house which knows them well and are probably guaranteed by some foreign bank. This accepting house accepts the bill. When the Northern seas thaw the timber comes down; it is consigned to some correspondent who pays the accepting house the value of the cargo, and in due course the few big importing houses will circulate their timber to the distributing houses and draw for it again accordingly. That is a purely internal matter.

1725. *Chairman*: Do these bills which you have passed round the Committee represent all the different types you encounter?—Yes, with the exception of these three that I have got to show you now. The first is that of the Metropolitan Water Board, and the second is that of the Port of London Authority. They have need of money; sometimes it is only a temporary need, sometimes the occasion for marketing their obligations in the long form is unpropitious and, therefore, to bridge over the time when they want their money they issue these bills for which we tender. They may be met at the end either by a renewal——

1726. They just carry out on a less exalted scale what the Government does by means of the Treasury Bills?—Precisely.

1727. And you and your competitors tender for them?—Yes.

1728. What is the currency of these bills?—They run from three to 12 months.

1729. Renewable?—At our option. We need not tender for them if we do not want them; it is for them to say if they need the money. *This* bill which I am going to show you now is the one which perhaps will require the most explanation. I have taken it as an example. This is a foreign Treasury bill issued in England, and I want to show you that although it is seemingly for the benefit of a foreigner it is really for the benefit of England. This is an Argentine Treasury bill of which £5,000,000 were issued on the 1st January to Baring's. One would think that perhaps that would go to help Argentina exclusively, but the cause of it was the lack of currency in Argentina. Owing to the fall in the exchange and the export of gold they had not enough currency, and people who buy the cereals in Argentina to resell them to us in the shape, not necessarily of wheat—it may be maize, it may be anything—had difficulty in finding the currency with which to pay for them; therefore, it would have cost them more and they would have charged it on the price here. By issuing these bills in this country Argentina raised money which was changed into gold automatically, and the gold is paid in, degree by degree, to the Bank of England, and as it is paid into the Bank of England here, *pari passu*, in Buenos Aires they issue currency notes in exchange. Therefore, it supplies them with currency; England is secured by retention of gold in the vaults of the Bank of England, and when that transaction has been finished in 12 months' time we have the assurance of Baring's that these bills will be repaid by the gold in the Bank of England. That, I think, is the best example of that class of bill that I can show you.

1730. *Mr. Brand*: There used to be, I suppose, more of those Treasury bills—Chile had a good many?—At one time Chile and Brazil had a great deal. I think it has been said generally that there may be something like 20 odd millions here, including everything, including the Water Board bills and the Port of London Authority.

1731. And Hamburg, you might see that?—Yes. You might see that in small quantities, but, of course, these exotic bills we cannot deposit with the Bank of England, and we do not as a rule deposit them, except with the issuers of them, unless we arrive at a previous understanding in which we say, "We are sending you as security something which is not what you expected from us; we will pay you a little more for it," and they do that, but the whole sum is not very big. You do not do that with the Water Board bill or the Port of London bill because those go of their own accord.

1732. *Mr. Lubbock*: The underlying foundation of your evidence is that the London money market is used for the distribution of goods all over the world?—It is, absolutely.

1733. And is rendering that service to the world's commerce?—Enormously; not only does it do that, but it makes the demand for sterling what it is.

1734. *Chairman*: While you are performing that great function, Mr. Foà, how far do we benefit as a nation ourselves. What is the benefit to us?—The benefit is the increment to the wealth of the nation by receiving banking commission.

1735. Is that part of our invisible exports?—Certainly.

1736. *Mr. Newbold*: Is that all?—I cannot for the life of me see what else there is. It is very difficult to say. I take a £10,000 bill from a man abroad. He tells me, "You take these bills, you pay the money to so and so." What he is going to do with that money I do not know; I cannot know.

1737. *Chairman*: Does the fact that we are the financial centre attract business from all over the world?—Oh, I think so. A man abroad always prefers having a credit in London to a credit anywhere else. Of course, the time when goods were sent to London or Liverpool as a depôt and then reshipped all over the world has gone long ago. Wireless has stopped that. A boat leaves Buenos Aires for London and it is suddenly found that the market in Genoa is higher for wheat than it is here. Well, they send a wireless message to meet the vessel wherever it may be, and it does not come here.

1738. Before she gets to the Channel?—Yes, long before she gets to the Channel—in mid-ocean.

1739. *Mr. Keynes*: Have you formed any estimate of the volume of sterling acceptances outstanding to-day?—I have often discussed it with friends, but I am bound to say that any figure I might give is very little more than a guess. It is very difficult even to guess the amount of what we call the first-class bank acceptances. There are registers kept, but if you go from that to the internal trade bill I do not think anybody can tell you. I should think that £250,000,000 of banking acceptances would be about right.

1740. That would include banks and acceptance houses?—Yes.

1741. What portion of that would be home bills, domestic bills?—By "home" bills do you mean drawn in England?

1742. Yes?—I could not tell you.

1743. Would it be negligible?—I would not say that, but I could not give it you even approximately.

1744. *Mr. Brand*: But the total would be much smaller than that of bills originating abroad?—Yes.

1745. *Mr. Keynes*: Have you any idea what proportion of that £250,000,000 would be carried in London?—Well, you can arrive at a conclusion by taking the bankers' returns, where the Treasury Bills are separated from the commercial bills—but it is not all the banks that do that. I should say that our discount market would carry of borrowed money perhaps £150,000,000, perhaps less.

1746. You would have to add to that what was in the portfolios of the banks themselves?—Yes, and you must not forget that the merchants hold a great mass. The merchants do not discount with us as long as they have got money; they only come to us when they are in need of money.

1747. Then it looks as if a very great proportion of the £250,000,000 would be carried in London?—A very great proportion. Perhaps I am exaggerating, because I forgot at the time there are the Treasury Bills to be put in. The Treasury Bills at present, according to yesterday's "Times," were £718,000,000, of which the market—that is to say, discount houses, and their various friends—would hold about one-third.

1748. *Professor Gregory*: That is not included in your £250,000,000?—No. Therefore I am quite wrong. I over-estimated the amount of commercial bills in our hands. It may help you if I give you one or two figures of the constitution of the discount market, there are three public companies with capital and reserves of £6,215,000, four private companies with a capital of £1,625,000, 17 private firms and eight running brokers with a capital of roughly £8,000,000. The capital of the discount market therefore being about £15,000,000 sterling, is, in itself, a small sum, but you must remember the use of this is only to provide the margin on our loans, the capital existing in the securities which we give as guarantee.

1749. *Mr. Keynes*: And those 32 firms would carry about £115,000,000, including Treasury Bills?—Yes; I should think more than that. On the £15,000,000 capital, if we were extended to our full, we could carry 20 times that figure; we could carry £300,000,000 if we had to go to the Bank of England for the whole thing, because they exact five per cent., but if we do not go to the Bank of England we give an inappreciable margin—very little and therefore could carry much more.

1750. *Chairman*: Have you any conventional ratio to which you work when you feel you have too much out?—No, because that varies with the supply and demand and loanable money. If I find that people are lending freely, that trade is restrained, and that taxes are not going in very freely, I shall probably have £9,000,000 or £10,000,000 on my book in money without any trouble; but if, as happened this week, a very large amount of taxation has been paid in, the banks have called the money from me, and I have got less. Therefore I might not renew. I know the "Treasuries" are coming out next Friday. Very well. If I think it is likely we shall be short of money I shall not tender for so many bills as I should if I thought money was going to be easy.

1751. *Professor Gregory*: Generally speaking, the discount market works on a sort of conventional idea of what the margin is?—Yes; but that is modified. Supposing I have a portfolio of £8,000,000 and Messrs. Lazard say to me "We want to buy some bills" and they ask me to give them half a million bills, if I comply with their request it is going to be a little difficult for me to replace those immediately in one or two days. Therefore I do not want to have money over.

1752. *Mr. Keynes*: How do you deal with the position of money over—how can you avoid it?—If I cannot use it myself I try to stick somebody else with it, but it does not always come off. There are times, of course, when we have £10,000, £20,000, £50,000, £100,000, which we find we have been obliged to take to oblige our clients, and we are not able to employ it either by buying bills or by re-lending. We make a loss.

1753. *Professor Gregory*: You mean money on deposit with you?—Yes, but you understand, with us, with private houses, all money that we take on deposit we give security for, always; and that is the difference between us and the banks.

1754. *Mr. Keynes*: With a margin?—A very small margin indeed.

1755. *Chairman*: Who are your depositors—I do not mean individually—what class?—Principally the banks, but there are a very great many trading companies. There are the foreign banks; they give us just now a great deal. Some of our clients will perhaps discount a large parcel of bills and say, "I shall not want it till to-morrow; I think the rate might be firmer. Therefore, I will sell the bills and you keep the money."

1756. It is your experience that there are people who have money which they want to keep as liquid as possible, but meanwhile they want to get a return?—Yes.

1757. Therefore they do not invest it, but they come to you, and you enable them to get some return for their money, while keeping it available in liquid form; the security behind it is the commercial bill?—Or the Treasury Bill.

1758. Or the Treasury Bill, which in turn is as fine a security as you can get, because its moneys worth is bound to come home?—Yes; and besides that there is no form of security which is scrutinised so often as a bill. If I take money from this gentleman and I give him security he notes the bill; he wants the money back to-morrow. I give it to another gentleman; he sees the bill, he sees the security, and it would be very strange if among all the trained bankers and commercial men with whom I deal some of those people in scrutinising the bill, if there were anything wrong, would not know it.

1759. And yet, penetrating to the realities, each of those bills in the ordinary case represents an actual commodity. There is a piece of paper behind it, but it represents the value of the commodity?—Generally. I made a note which has reference to the point and which may perhaps interest you. I will read it. "Another form of bill, of which many were created, was the anticipatory bill drawn, for instance, in July from America by an American Finance House on its house in London. At that time the American exchange would probably be in the neighbourhood of 4.86 and these houses knew that when the cotton came forward, as it was sure to do in three months from then, the number of cotton bills offering would be so great as to depress the exchange and enable them to cover their outlay with a considerable profit."

1760. And, therefore, you are engaged in a process of what you might call smoothing out the seasonal disturbances?—Yes. That is what I call an anticipatory bill. It does not, like the bills I have circulated among you, represent trade, but it does represent coming trade.

1761. *Mr. Brand*: It used to be employed regularly?—It used to be done very, very largely, but now there is very little of it. The only thing I have shown you now is that bill from Finland; that represents timber, because they have got to have their money before they can send the goods out. That is an anticipatory bill and that is about the only one I know.

1762. You used to see many more finance bills than now?—Oh! many more.

1763. *Chairman*: Just develop that a little. Have you noticed many changes coming over your business of recent years?—Oh, yes.

1764. What is the character of the changes? Can you diagnose it for us?—In this way, for instance: South America, especially West South America—Chile, Peru—used to pay everything in three months' bills on London; now their payments are generally made by telegraphic transfer. That is a very great difference.

1765. Does that mean they have a fund of credit here which they can transfer by cable?—Yes. I am a director of a South American bank, the British Bank of South America, which is a very old one. Before the War, if a merchant in South America wanted to remit to London, we will say, for machinery sent out, he would come to us and buy a three-months' bill, which we would draw on our own head office. Now he does not do that; he comes and asks for a telegraphic transfer.

1766. Does he carry a credit with the British Bank of South America?—No, but he buys it out there against cash.

1767. And it is remitted here?—It is remitted here at once. That has changed very much. I think in proportion to the magnitude of capital employed, taking it all round, there are fewer bills than there used to be. The banks prefer making advances to discounting bills.

1768. *Mr. Brand*: There are fewer inland bills?—Yes.

1769. *Chairman*: Is the shortage of bills an embarrassment at all, do you think, to the working of our financial system?—That is a very difficult thing to say, because if you ask me to assess the amount of pliability of the banks I cannot tell you that. In the old days I used to see a lot of internal trade bills; I scarcely see them now; they are very rare.

1770. *Mr. Lubbock*: Of course, you have more Treasury Bills now?—Yes. £718,000,000 is a great deal.

1771. Most of your money is got from the banks?—Yes.

1772. Do the banks ever offer you more money than you want to use?—Yes.

1773. And what do you do then?—We try to refuse agreeably. I shall refer to that in a moment. In earlier days money was always lent at call rate, that is to say, at about 1½ per cent. below Bank Rate, and at weekly rates perhaps ¼ per cent. higher. Recently the banks have introduced lending money at a minimum of 1 per cent. below Bank Rate and the supply and demand of loanable capital is then interfered with as far as the downward tendency is concerned. We used to be able to say, " We do not want money to-day; the Bank Rate is 4½ per cent. and the banks will lend at 3½ per cent." We used to say, " We cannot afford to take it; bills are so and so; we want your money cheaper." Now, it is an interesting thing that the banks do not lend to us under 3½ per cent. That sometimes affects us and sometimes it does not. If the general supply of money is so large that we can get a great deal from outside sources, from the merchants, and so forth, then perhaps we are not so assiduous in our attention to the banks as we are when money is dear. When money is dear we have to take it at the best price we can. Our supply of money from the banks is given in two forms—what they call " good " money and " bad " money. " Good " money is money which is given to us and remains with us virtually the whole year round. We deposit so many thousand pounds of our balance and the bank lend us against security so many hundreds of thousands of pounds maturing every day, and beyond that they give us large sums of money as and when they want to.

1774. They regulate the supply?—Absolutely.

1775. It is very difficult for you to refuse them if they offer you a larger sum?—Very difficult.

1776. *Mr. Brand*: Supposing the Bank of England wanted the market rate put up and the Big Five agreed with the Bank that they would charge a somewhat higher money rate; do you think they could do it?—I think they could do it if they chose a propitious moment when money is scarce; but when money is plethoric, no.

1777. *Mr. Keynes*: In those circumstances could they not achieve the same object by releasing more Treasury Bills?—What they do is this: If in the opinion of the Bank of England the market is too easy, and is affecting the foreign exchanges, and making it likely that they will lose gold, they sell us Treasury Bills in large sums. The Treasury Bill is, in the inner circle, the most readily negotiable thing that there is, because, although the bankers will never part with the commercial bills which come into their hands, it is not an uncommon thing for them to say, " Will you take a line of Treasury Bills? " " Yes." So the Treasury Bill is employed very often in regulating the value of money.

1778. By a joint stock bank?—Yes; I have had millions.

1779. The banks do not call that re-discounting?—They do not refer to it in that way. They do not endorse it. Especially in 1921, 1922, and 1923 we got millions and millions.

1780. *Mr. Lubbock*: Then if the banks feel bound to employ their money and press you, you equally feel bound to employ it in buying bills wherever you can?—Yes.

1781. Which depresses the rate?—Which depresses the rate, and that again reacts on the exchanges.

1782. *Chairman*: How does your rate relate itself to Bank Rate?—It is very difficult to say. We have had an extreme example to-day. The Bank Rate was 5 per cent., our discount rate was 3⅞.

1783. What is the effect of a disparity of that sort between Bank Rate and the discount rate?—It is reflected chiefly in our earnings. If the Bank Rate is 5 per cent. and the discount rate 4½, and we can borrow money at 4, there is a margin which induces us to work. But if the day to day money is considerably dearer than the discount rate the only thing left to us is hope.

1784. And for what do you hope?—For better times—a reduction in Bank Rate. But, of course, you must not forget that very often the reduction of Bank Rate does not at all imply a further reduction in the discount rate. It does not.

1785. The two may have got out of tune with each other?—They do.

1786. *Mr. Keynes*: Suppose that the Bank of England increases the reserves of the Big Five by £1,000,000, and in consequence of that they have a considerable amount, much more than £1,000,000, to spend, either in buying bills or in lending to brokers?—You say the Bank of England increases the supply of capital?

1787. *Mr. Brand*: Of cash?—That is to say, the bankers' balances at the Bank of England would be increased.

1788. *Mr. Keynes*: If the Bank of England buys £1,000,000 of Consols, and thereby increases the balances of the banks by £1,000,000, the banks would increase their total lending by, say, £9,000,000, and of that perhaps £2,500,000 would be either directly or indirectly employed in bills?—Yes.

1789. If that happened would it be easy to find a sum of £2,500,000 bills extra?—Do you mean in the creation, or getting it ourselves?

1790. There is an extra demand on behalf of the Big Five for this additional quantity of bills. Where are those to come from?—The first thing nowadays would be that it would translate itself into tenders for Treasury Bills.

1791. But if the amount which had been offered for tender was unchanged you could not get more bills for the market?—No, but you could get more yourselves by cutting the rate. It is purely a question of competition.

1792. The market as a whole has to find an additional amount of £2,500,000 of bills?—We might by telegraphing abroad and offering very much reduced rates get some of the people to send us bills for discount, but it would be very difficult.

1793. *Professor Gregory*: There is not a floating supply in the hands of merchants over here?—There is a certain amount, as I attempted to show you just now; what the merchants do is to discount with us when they want money.

1794. *Mr. Lubbock*: If the rate was very low it might attract them?—It might induce them to do it.

1795. *Mr. Keynes*: The effect of this extra demand for bills would be a very serious decrease in the rate?—Certainly.

1796. *Mr. Brand*: Do foreigners generally buy bank bills or Treasury Bills?—Generally bank bills, because the constitutions of most of the foreign State Banks require that there should be three signatures on a bill, the drawer's, the acceptor's and the endorser's. Well, you cannot have that with a Treasury Bill.

1797. *Mr. Keynes*: We were told by one witness that the volume of bills outstanding to-day is very much reduced as compared with a year ago, because of the fall of commodity prices. Would you confirm that?—I do think so; I have found the same thing. I should like to read you what I wrote. I was referring principally to the anticipatory bills, but it also referred to others. I say: "I think that one of the reasons to account for the disappearance of these anticipatory bills is the very great fall in the price of almost all primary products be it wheat or wool, tea or tin, coffee or sugar. Until the last 5 or 6 years the first care of the importer of these commodities was to secure for himself a supply of them adequate to his needs, feeling sure that with his knowledge of markets he would be able to place the finished product in the markets of the world. Now this is all changed with the result that he has to find his markets before he buys the raw article. This again has a repercussion on the finance of these articles for whereas, if we take for example cotton, the spinner used to buy at the beginning of the season what he thought necessary for his needs during the year, have the cotton shipped to him and make his arrangements for financing it here until it was sold in the shape of yarn or cloth, it is now left in the hands of the producer and he it is who has to make the necessary arrangements. Coffee too at one time was carried very largely in the principal countries of the world, but owing to the attempted defence of price in Brazil—the largest producer—the coffee (the free export of which is no longer permitted) has to be carried in that country." I do think it has had a very considerable effect upon the supply of bills.

1798. *Chairman*: To what extent do you find that America and Paris are competing with you in your particular enterprise?—America two years ago, when they had a very low discount rate, a good deal below ours, used to affect us by not sending the whole of their bills for discount—they kept them there—and, of course, the amount of bills from America—cotton, maize, anything you like—was very large, and that did affect us.

1799. Is there a permanent change, do you think?—It is very difficult to say. I had the honour of reading a paper on the subject before the Political Economy Club about a year ago, and I told them the conclusion I had arrived at was that the change was temporary and would not last; that we should get the business back because of the elasticity in our market.

1800. *Mr. Keynes*: There has been a reduction in the volume of bills for reasons we have been discussing. How does the market make good that position?—There has been such a creation of capital of late years. For instance, let us take short debentures—what we call "floaters".

1801. *Mr. Brand*: Government?—The Government "floaters"; there are millions and millions.

1802. *Chairman*: I am sorry that we must adjourn now. You have been good enough to give us the notes which you prepared as the basis of your evidence. If any further question arises we may have to invite you to come back at a later date. Meantime we are very much obliged to you for your interesting evidence.—I am at your service.

(*The Witness withdrew.*)

(*Adjourned till to-morrow, 7th February,* 1930, *at* 4.30 *p.m.*)

ELEVENTH DAY.

Friday, 7th February, 1930.

PRESENT:

The Rt. Hon. LORD MACMILLAN, *Chairman.*

Mr. ERNEST BEVIN.
The Rt. Hon. LORD BRADBURY, G.C.B.
The Hon. R. H. BRAND, C.M.G.
Professor T. E. GREGORY, D.Sc.
Mr. J. M. KEYNES, C.B.
Mr. LENNOX B. LEE.
Mr. CECIL LUBBOCK.
Mr. J. T. WALTON NEWBOLD.
Sir WALTER RAINE.
Mr. J. FRATER TAYLOR.
Mr. A. A. G. TULLOCH.

Sir FREDERICK LEITH-ROSS, K.C.M.G., C.B.
Mr. G. ISMAY, *Secretary.*

Sir W. H. N. GOSCHEN, Bart., K.B.E., Chairman of the National Provincial Bank Limited, called and examined.

1803. *Chairman*: I think, Sir Harry, that we might most usefully start by putting to you some of the problems relating to the banks which have emerged from our discussions with previous witnesses. In the first place will you tell us shortly the system of organisation of the National Provincial Bank?—You mean with regard to the work?

1804. First of all, you have, of course, a head office in London?—We have a head office in London.

1805. And a very large number of branches?—Yes, about 1,300 branches.

1806. Have you been increasing the number of your branches lately?—We open a certain number of new ones every year—I think we opened about 46 last year.

1807. And is that done, apart from merely competitive reasons, in order to bring banking facilities to the customer?—Yes; wherever we see that there is a place that we do not think is sufficiently banked, or where there is an opportunity for good business we open a branch.

1808. I suppose your bank's constitution, like that of the others of the Big Five, is the result of a series of amalgamations?—Yes, but not a great many; I think we have had fewer amalgamations than most of the larger banks. We have grown naturally, rather than by amalgamation. Of course, we took over the Bradford District Bank, the Northamptonshire Union Bank, and the last big one we took over was the Union of London and Smiths Bank, Ltd. with which we amalgamated in 1917.

1809. We are naturally deeply interested in banking in its relation to industry. With which industry is your bank mostly in contact?—I should think mostly with iron and steel. Of course we are in contact with every industry, but I should think our greatest interests are probably in those districts.

1810. I should take it from your Bradford connection that you must have a special interest in the textile industry?—Oh! yes. In the wool industry; not so much in cotton.

1811. Fortunately, perhaps?—Very.

1812. Then you have had experience in connection with the iron and steel industries, of very depressed industries?—Very depressed; in a great many cases. I suppose the whole of the heavy iron and steel industry is very depressed.

1813. *Mr. Newbold*: You have had a long period of experience especially in connection with the iron and steel industries on the North-East Coast?—A long period. Middlesbrough, at one time, was one of our largest branches.

1814. You came in to assist Middlesbrough in 1879 in a period of severe crisis?—I am afraid that is a little before my time; I have no doubt you are correct.

1815. I thought you would be able to give us your experience of the condition of the steel industry right through?—If I had known you had wanted it I would have had the history looked up.

1816. Your modern connections are very great?—Yes.

1817. *Chairman*: It would be very helpful to us if you would tell us what your relationship has been to the iron and steel industry, and to the textile industry, as a banker. You represent the financial side; you are the person to whom these industries come for money?—Quite.

1818. I should like you to tell us what your relationship has been to these industries; how far you have been able to meet their requirements, how far you have been a critic of their financial arrangements, how far you have made suggestions to them to put their house in order if I may put it so, how far you have acted in relation to them as a financial father?—I do not think that as a whole it has been very much the bankers' custom to impose schemes of organisation or re-organisation on any of the industries with which they have been connected. The banks have always felt, to a certain extent, that if they suggest any particular schemes, and if the schemes are adopted and are not a success, bankers render themselves more or less liable to the people to whom they have suggested that the schemes should be carried through. So I think there has always been hesitation on the part of bankers to insist on any particular scheme being carried out. They would rather say: "We think that your finances are in a very dangerous condition and that your way of carrying on your business is not at all satisfactory,"—if that were the case—"and we think that you ought to reorganise the whole of your system and reorganise the whole of your finances." If firms came to us then for a certain amount of advice as to what they might do we should certainly give it them, we should assist them in every way in recommending experts to them, and we would say "If you want any help from us you must draw up some scheme of reorganisation by which you can put yourself in the position of a paying concern and thereby enable yourself to repay some of the overdraft you have had from us."

1819. I can quite understand that you would not wish to take the responsibility of running the business of your customers; on the other hand, I should imagine that as you have advanced money from time to time to a particular undertaking you naturally become interested in it as a creditor?—Quite.

1820. And then the position may arise where you say "A lot of our money is embarked in this undertaking now, and we do not like its appearance," and as a creditor is always interested in the debtor you might be disposed to say "We can give you no more financial assistance unless you do certain things"?—We would say so.

1821. Is it the case that to any large extent the undertakings of the iron and steel industry are, as it is sometimes put colloquially, in the hands of the bank; that is to say that the bank are such large creditors that their position is predominant?—I should think they are very much in the hands of the banks in this respect, that the banks are able to put them in liquidation if necessary.

1822. Then that gives you the whip hand?—It does give us the whip hand, but it is not always advisable from many points of view to exercise that.

1823. No; and it is no use whipping a dead horse, even if you have the whip hand. When you are in the position that you have embarked a good deal of your customers' money in advances to an industry, which, unhappily, is overtaken by depression, no doubt those who are running that industry come to you and explain the position. How do you generally act in such a case?—Well, if the case is so acute that it is necessary, we should probably send an expert accountant down to examine the position.

1824. That is what I want to find out—your method of procedure?—We should probably send an expert accountant down to look into the whole account, the organisation and the working of the whole business, and on that accountant's report we should have to decide whether it was possible to lend them any more money, or whether it was necessary to say "Well, I am afraid on the existing arrangements we really cannot find you any more money". But we are frequently faced with this difficulty when that point arises—our customer comes to us and says "Very well, we shall have to shut down to-morrow, and 8,000 men will be thrown out of work. What are you going to do about it"? Very often on that plea we have advanced possibly more money than we should, in order to enable them to try and keep their works open, after having seen that they have effected every economy possible in overhead expenses, in working expenses, and in every other way possible.

1825. *Mr. Frater Taylor*: Is the accountant sufficient? Is there not a necessity for having in the technical man as well?—Of course, the accountant is quite able to call in such assistance from the technical side as he requires, and some of these accountants now from their experience of the iron and steel work have a good deal of technical experience.

1826. Of course, the accountant can tell you as a rule where the current weaknesses are from an accountant's point of view, but he cannot tell you the fundamental weaknesses?—In that case we should have to call in an engineer as well.

1827. Have you done that in the steel industry to any extent?—I can think of one or two cases where we have had technical men as well as accountants to report to us.

1828. Will you tell us some of these cases—a practical illustration would be rather helpful. (*Chairman*): You need not mention a name?—I can think of one in the Midlands, a large iron and steel and coal firm where we had our accountants down there for some time, and eventually we picked a man we thought was a good technical man and sent him down in conjunction with the accountant to look into the technical part and make recommendations for the reorganisation of the works, and to inform us whether it was possible to reorganise them and put them on a profit making basis. Those recommendations were really addressed to the owners of the business. In another case, I think quite lately, a very distinguished steel expert has made a long and exhaustive report on the whole works and as to the possibility of putting them on to a paying basis—I believe it is paying its way at the moment—and also with the idea of producing their basic material very much more cheaply than at the present time. Those recommendations again were made to the owners of the business, and I think I should be quite justified in saying that we were satisfied that those were proper recommendations and if the people refused to carry them out I am afraid we should have to say to them, "You cannot have any more money."

1829. *Chairman*: That is a rather important sanction that you possess. What I am wondering is why these businesses which find themselves in difficulties should not themselves obtain advice without waiting for their bankers to move? If your experts saw, after investigation, that economies could be effected and the business made more efficient, why should not the heads of the business take their difficulties direct to the proper quarter?—I think that often they think they know as much about it as anybody else.

1830. *Mr. Bevin*: And is that why a business becomes derelict?—I think it is more than likely.

1831. *Mr. Frater Taylor*: It would be rather helpful if we had the name of the business; it need not be published?—I think it would be a little unfair to the people, would it not?

1832. We would be able to get a little bit closer home. You say, "a business in the Midlands," Well, basically that business may not have been quite sound. It may not have had iron ore?—(*Witness*): Well, it had. (*Mr. Frater Taylor*): Or good shipping facilities, or something of that kind.

1833. *Chairman*: I do not think we can do more than ask Sir Harry to give us an example. We have asked him for details of a case on the basis that he should not give us the name. I do not think the name matters so much as the fact that it is a typical case. What I want to get at is, have you found in connection with your customers that in a number of instances their depressed condition was, I will not say, attributable to their own deficiencies but that their difficulties might at least be alleviated substantially by improvements?—I think there is no question that in a great many cases if the works were really brought up to date—if the money were available for bringing the works up to date— there would be a very considerable improvement.

1834. *Mr. Brand*: Is it a question only of money? The money might be available, but the security might not be good enough for the public to subscribe the money?—That is the difficulty.

1835. *Chairman*: Mr. Brand's point is of great importance. This raises at once the question of the proper relationship of bankers to industry. In some of those cases where a reorganisation of the business might put it on its feet again, you might feel that you as a banker could not provide the necessary money because it would involve locking up your funds?—Yes, certainly. I do not think we could provide the money permanently.

1836. Have you had cases of that sort where a customer has come to you and said, "We want to put our house in order and we think we can see our way through if we had more money, but that money will be in the nature of capital expenditure and will not fructify for some time. We cannot show profits for the past few years, therefore we cannot put out a prospectus to the public that will attract money." What would your answer be if you had a case of that sort?—It is a little difficult to answer a hypothetical case. The answer would depend to a certain extent upon how much money we had lent already, and if we lent more (up to what we considered a prudent limit or possible limit to lend to any one institution) what chance there was of getting it back.

1837. You do not want to throw good money after bad?—No, except where we see a reasonable chance of getting both back.

1838. It might be, might it not, a good proposition —one that might stand criticism quite well—nevertheless inasmuch as it involved capital expenditure which might involve a locking up of your funds, you would have to refuse it, even although you thought it quite a proper proposition?—Again I say each case would have to be taken on its merits. It is very difficult to give a general answer to that. If the amount was not too excessive, if the business was sufficiently promising to afford reasonable hope of repayment in a comparatively short time, I think it is more than possible that we should say, "Very well, we will find you a little more money on condition that whenever we tell you to do so you will make an issue to the public." If it were such a good proposition as would rehabilitate the particular business it would put it into the position of earning profits, and after the business had earned profits for a year or so probably they would be in a position to make an issue to the public. But businesses differ so much and in so many cases nowadays the amounts required are so large and they may have had already such large advances that it is very difficult to give a general answer.

1839. I quite appreciate that you do not want to become permanent investors in business?—No.

1840. On the other hand, if it were a question of providing money of which you saw a reasonable chance of repayment within a reasonable time, then you might see your way to help?—Yes; we have done so.

1841. Is the kind of thing we have just spoken of characteristic; have you had many instances in the iron and steel industry of people in the position we have been discussing?—I do not think we have had many as far as I remember at the moment that have come to us with any reasonable proposition that have not been helped.

1842. You have been able in point of fact to give them a hand?—I think we have. As far as I know in the case of any really well managed concern that offers reasonable possibilities of profit we have been able to help them.

1843. You used an example a moment ago which struck me. You said you had allowed yourselves to be over-persuaded in some instances to go a little beyond what you would have liked to have done because of the very serious social consequences that were involved?—That is so.

1844. The result of that may merely mean that you are putting off the evil day?—Well, to a certain extent it has been so, but, of course, in addition to that, the borrowers have always no doubt held out great hopes that the mine is going to strike a new vein or that they expect a very much better demand for iron in the course of a few weeks, or that something else is going to happen. I do not say that we place a great deal of confidence in those anticipations; I think we are able to form an opinion if any justification for such hopes exists.

1845. *Mr. Brand*: Provided that the advance that you are asked for is within banking limits I suppose the fundamental question is whether you think you can put the industry into a profit-earning condition?—That is so.

1846. *Chairman*: Do you find that many of these industries are embarrassed by their capital position?—I do not think they have been to a great extent really embarrassed. Of course, if they cannot make any money, and have raised loans by means of heavy debenture issues, this forms their principal embarrassment.

1847. And these heavy commitments are like a millstone round their neck?—Yes, I can give two or three examples.—United Steel, Bolckow Vaughan have been getting rid of these commitments more or less in one way or the other.

1848. That is a drastic process?—Very disagreeable for the investor.

1849. How far do the banks share in the sacrifice as investors?—I suppose they are really living in hope at the moment; I do not think they have been re-paid, if you ask me that.

1850. I wondered if they had participated in the general scaling down?—In some cases no doubt they have written off large amounts, but in others probably the amounts remain owing and I suppose as time goes on they will have to be satisfied with something other than cash.

1851. If investors are required to make a sacrifice in order to rehabilitate the industry what I wanted to know was whether the banks participated in that sacrifice?—They probably would have to, because they come after the debenture holders and there may be nothing left for them.

1852. Of course, your direct relations are with your own customers, that is to say, with an individual company or firm who comes to you?—Yes.

1853. But when you are dealing with an individual company or firm how far do you take into consideration the general position of the industry to which that company or firm belongs? Have you any means of gauging, for example, the general position of the iron and steel industry from the point of view of its financial position, and how far it should be further assisted and in what way, apart from looking to your individual customer and the security he brings you?—I think we are very closely in touch with them. We have our managers all over the country who are constantly sending us reports. These reports from all parts of the country, are from managers who are selected for their knowledge of that particular industry or district and they keep us constantly informed, so that we are able to form a very good opinion of how the whole industry is progressing or declining.

1854. If a customer came to you with quite good security and asked for an advance in connection with his particular undertaking, would you go beyond the question of the adequacy of his security in order to consider larger questions about the position of the industry in which he was engaged?—I think we should certainly take the state of his particular industry into consideration at the same time, because probably the security he would offer us would be connected with the industry itself. It would probably be very seldom that they would offer us War Loan or anything of that kind; such an asset would have gone long before.

1855. *Mr. Keynes*: We are considering the case of a firm which belongs to a depressed industry. Have you ever put pressure upon such a firm to conform to what you regard as being in the interests of the industry as a whole, as distinct from the interest of that particular firm?—You mean should we say, "You must not sell your stuff at a lower price than someone else"?

1856. Yes, or "You must form a combine with such and such other firms"?—I do not think we have actually put pressure on them. We may have said to them, "We should strongly advise you to get in touch with so and so or so and so who are doing the same thing and come to some arrangement with them so that you do not cut prices unduly."

1857. *Mr. Tulloch*: If you did that it would be an attempt to manage the industry. If you put pressure on them in relation to their business it would be going outside your duties as a bank?—Yes.

1858. *Mr. Keynes*: If they rejected your advice you would oblige them just as much as if they accepted it?—I must have a concrete case before me. As a bank we do not deal with hypothetical cases; we deal with the thing actually before us.

1859. *Mr. Newbold*: Four or five years ago I made a detailed investigation of the north-east coast steel industries. I cannot give you the exact particulars, but if I remember right the National Provincial was registered in the share registers as the holders of very big blocks of stock, which seemed to increase as the years went on, in two or three big concerns in Middlesbrough in steel, and in Durham in coal?—Yes.

1860. Did that mean that you were continually lending them money on overdraft and that you were taking security?—I take it that when you say "stock" you include shares as well as debentures? They were probably shares which were deposited not for the company itself, but for some other company or individual as collateral security. Shares in the company itself would be no security for us because we, as creditors, come in front of the shareholders.

1861. *Professor Gregory*: Supposing one had good reason to believe that a considerable reorganisation was necessary in the West Riding textile industry, and a particular firm which happened to be a customer of yours of quite good standing wanted more money, would you, beyond saying "We think you ought not to undercut," take any other steps to see that they conformed to what public opinion in the industry thought was the remedy for its present difficulties?—I do not think we could quite do that.

1862. *Mr. Keynes*: I think I can make my earlier question concrete if you will tell me the names of some firms in the iron and steel industries who are your customers?—Well, take the United Steel—everybody knows they are our customers.

1863. In that case I think there were two schemes on foot, one for combining it with some other firms on the north-east coast, and the other the Hatry scheme for making that the initial unit. Did you take any part in persuading the United Steel Co. to join in one scheme or the other?—We should leave them to use their own judgment; if they asked for our advice we should give it them. We should not persuade them.

1864. Did they ask for your advice?—I cannot answer that. That is a question of banker and customer. I cannot possibly answer a question whether a customer has asked my advice and whether he has taken it.

1865. *Mr. Brand*: Bearing on this point I think it is important to get the relations between banker and industrialist clear. First of all, you consider that the banker knows about financial affairs?—Yes.

1866. But you also consider that he knows very little about industrial affairs—as an expert?—As far as the technical side of it is concerned.

1867. You consider that a banker cannot possibly know as much about an industry as the industrialist?—No.

1868. And therefore, on industrial questions, you would consider that the banker is not entitled, and that it is not ordinarily his business, to advise his industrial clients?—Quite.

1869. But financially, if the industrial client wishes expert advice on the financial set-up of an amalgamation the banks ought to give it?—(*Witness*): Certainly. (*Mr. Frater Taylor*): Of course, the financial set-up is of little use unless the practical set-up is there?

1870. *Mr. Brand*: The practical set-up must come from the industry?—From the industrial experts.

1871. If the industrialists cannot do that for themselves, I suppose the banks cannot do it for them?—No.

1872. But the banks can play a very important part in saying "We will act as a sort of mediator; we will act as a general expert adviser on this scheme"?—Exactly.

1873. Do you think the banks do that?—I think they do.

1874. But beyond that they cannot go?—They cannot.

1875. *Mr. Keynes*: May I put my question another way? It was reported a year or two ago that there was a scheme for the amalgamation of iron and steel firms on the north-east coast, and that amalgamation was nearly brought about, but at the last moment one of the firms concerned was rather recalcitrant and did not want to come in. The banker of that firm was in a position to put pressure on it, but refused to do so. Would the action of the banker meet with your approval or disapproval?—It would depend on what the scheme was. Where the banker refused to put pressure he may have said "It is not a fair scheme" I do not know the reason.

1876. I am assuming it was a good scheme?—The banker may not have considered it was a fair scheme to his clients; it may have been very advantageous to the others concerned. If it had been an equitable scheme he would probably have said "I advise you to come into it".

1877. *Chairman*: The point is: Supposing the scheme is a good one in the judgment of the banker, but his customer does not want to go into it, do you think you are entitled to use the power you possess as creditor to press him? It is a question of professional ethics. Do you think you are entitled to use your position as his banker to compel him to do something he does not want to do?—I do not think to compel him—to advise him, and say "You must not expect our support——"

1878. *Mr. Brand*: If you thought it was in the interests of your shareholders that he should go in, you think it would be right to put pressure on him?—Yes.

1879. *Mr. Tulloch*: Are you interested at all in the cotton trade, in relation to the Lancashire Cotton Corporation combine?—Practically, no.

1880. Perhaps I may bring this point out now in relation to your evidence. The position to-day is that the banks are coercing their customers, even though some of the customers might do quite well outside, on the ground that the needs of the industry demand that these firms should join in a combine?—Yes.

1881. *Chairman*: The power that you have behind your advice is "If you do not take that course we shall cut off your supplies"?—That is so.

1882. *Mr. Tulloch*: That is the ultimate sanction, but my point is, not that it is advisable from the banks' point of view, but from the point of view of the trade as a whole. (*Chairman*): I see some difficulty from the banker's professional point of view. Take a good customer who has been an expert buyer for many years and who has a very good account. Is it not a little delicate for you as his banker to say "You must go into this amalgamation scheme which is essential"? Are you not liable to see him go across the street to another bank and transfer his account to them? (*Mr. Tulloch*): It is a little delicate, but the position of the industry in question is very precarious. The industry itself demands that all forces should be brought to bear to put it in a position which will enable it to resume its position in Lancashire. We agree that the cotton trade is a particularly extreme case. Heroic remedies are being pursued by the banks, with a view to getting that trade on to its legs. (*Chairman*): What I was anxious to get from Sir Harry was his experience in similar difficulties. We are investigating how far the existing banking system of this country is playing its part in helping industry. Industry is passing through a very difficult time. What useful service can banking render, what means has it of assisting? A great deal depends, does it not, upon the attitude that the banker takes towards industry? He may take the Continental attitude which is quite different from the attitude here. Of course, it is a question of high policy. You may say the British method is different. On the other hand, quite recently the banks have been taking much more interest in the technical side of their clients' affairs?—That is so.

1883. *Chairman*: Does that mean the banks are developing an Intelligence Department and taking a hand in industry which they did not in the past?—Oh, decidedly. I think every bank—at all events my own bank—has got a very efficient Intelligence Department.

1884. Is that a modern development?—Within the last few years, since the War.

1885. What sort of Intelligence Department have you organised to assist you in your dealing with your industrial customers?—As at present organised the department would be dealing chiefly with statistics and reports. Not a technical department.

1886. *Mr. Frater Taylor*: Are the banks cooperating at all?—In what way?

1887. In some of these industrial problems you said that if you had an application from a steel industry and that showed a possibility of good results you might stand behind it, but would you not have to look at that from the point of view of the general situation?—(*Witness*): Yes. I think in some cases they certainly are co-operating. I think in the amalgamation which I mentioned, the Bolckow amalgamation there were two or three banks interested and they all co-operated to render this amalgamation possible. (*Mr. Frater Taylor*): The other banks, of course, must also be interested in the steel industry so that the problem would be more or less universal.

1888. *Mr. Newbold*: I think from circumstances over which your bank have no control you have become over a long period very very closely associated with the steel industry?—Quite so.

1889. And, therefore, I should imagine that you and some of the firms of chartered accountants who have also had the same long connections with the industry would approximate rather more closely to what one may call the Continental type than some others of the Big Five?—It probably is so.

1890. The impression I have got is that your bank is one of two whose connections with industry are closer and much more intimate than any of the other three?—I think that is so—not as voluntary shareholders; we may sometimes become involuntary shareholders. I think our connection and our touch with industry, especially in the wool industry and the steel industry, is as close, if not closer, than some of the other banks' connections.

1891. *Chairman*: From the large experience that you have had as a bank of one of the great branches of industry, are you able to suggest any financial methods whereby those industries might be assisted and continued until their prosperity is restored? You have seen the thing at work. How far do you think industrial difficulties are due to financial considerations, and how far do you think there are any remedies that could be employed or devised?—If you mean by due to financial considerations, due to their having been short of capital in the past or anything of that kind, I do not think that has been the case. I think they have had every reasonable facility they could expect. For the purpose of reorganisation, however, in the depressed state in which industry finds itself now it will require some special means to set them on their feet again.

1892. Let us take that in its stages. As regards the past you do not think they have been brought into their present plight by any want of reasonable credit facilities?—Certainly not.

1893. In your case when the industry has come to you for credit have you always been in a position to afford them credit?—You mean, have we always been ready to afford them credit?

1894. Well, I was thinking of being in the position to afford them credit; because does there not come a moment when the state of your finances disables you from giving further credit—you have too much out?—I do not think I can ever remember an advance which has been required for a steel industry, and which was a justifiable advance, being refused on account of our not having the money to supply it. I think we have had the money available if the advance was justified.

1895. Perhaps the degree of justifiableness may depend to some extent on the reserve you have. If you have what you consider an insufficient reserve you become severe scrutineers of the application, whereas if you have ample funds and credit you become a little more generous?—I do not think that position has arisen in my experience.

1896. *Sir Walter Raine*: Are you referring only to the steel trade or to all trades?—I do not think as a whole, speaking generally, we have ever had to refuse any advance because we had not the money to lend.

1897. *Mr. Tulloch*: It is a question of the proportion of advances to deposits—whether it is justifiable to lend more than 55 per cent. of the total deposits?—At the present time I believe we are the most heavily advanced bank of the whole of the Big Five; it is quite open to anybody to work it out. We are lending over 57 per cent.

1898. Have you any views regarding the proportion of your deposits that you should advance on loan and current account?—Do you mean have I personally, or has the bank?

1899. Yes, you personally. It is rather an important point. To what extent do you think you should go in regard to the proportion of your deposits which you can reasonably lend directly to industry. Have you any definite views on that subject?—I personally may have more liberal views than some other people. I think a great deal depends on the question of how far the remainder of your assets are very liquid. If the remainder of your assets are very liquid I think you are entitled to lend a higher proportion of your deposits than you are if you have unliquid assets, investments and other resources.

1900. Of course, your other resources would be your cash at the Bank of England and in your till and your reserves, and your second line of defence would be your bills and your investments which would be all gilt-edged investments, Government securities?—As long as they are.

1901. They must be, must they not?—I think some people have other investments.

1902. May we not assume, in relation to the Big Five, that the other investments would be very trifling?—Well, yes.

1903. Let me assume that your cash and call money, and bills and investments, are there in proper liquid state—the cash is there and the others will be—assuming that, what would you call a reasonable advance to industry?—At the present moment we are advancing 57 per cent. so you can understand I do not consider that unreasonable.

1904. Would you consider it reasonable to go to 60 per cent. or over?—I think as things are nowadays 60 would be a rather high percentage; I do not think personally there would be very much danger in it, but I should be sorry, in view of the general situation at the moment, to see the advances go up to 60 per cent.

1905. *Professor Gregory*: Is that because you are looking at the thing from the standpoint of what public opinion might say about your bank?—Exactly. If your advances were so high that there was any great amount of public criticism about it, your deposits would probably be reduced and the result would be that the ratio of your advances to deposits would be much higher.

1906. *Chairman*: It is really a convention—the actual percentage is conventional and not based upon any calculation?—No, it is conventional. I think if you took the advances of pre-War days you would find that 50 per cent. was the ratio—an average of perhaps 47 per cent. to 50 per cent.

1907. There has been some relaxation since then?—Owing to the needs of industry advances have had perforce to go higher.

1908. Why arrest the process at any particular figure?—Well, you would get to a limit at which it would be inadvisable in view of your deposits.

1909. If you went much further, would it affect your relations with the Bank of England?—I do not think the Bank of England——

1910. You do not think they would mind at all?—I do not know what the Bank of England would say.

1911. *Professor Gregory*: You do not think that, so far from exciting adverse comment if you increased your advances, you might receive favourable comment on the progressive character of your bank. It seems to me there is so much of convention about this proportion that somebody has to alter the proportion before anybody else will adopt it?—Yes, but there must be a limit to what you lock up in advances. No one will pretend you can get your advances back at a moment's notice.

1912. That raises another point. May I put it this way? You generally lend for three months, do you not, on industrial advances?—Well, sometimes it is a little longer.

1913. In the case of loans to a good concern in anticipation of public issues you would be prepared to go as high as nine or 12 months?—I should be sorry if the impression were conveyed that we confine our advances to three months. Some of our loans are for nine months, some are for six.

1914. Do you not think that there is something to be said for the explicit abandonment of convention? I believe some banks have publicly announced that all loans are for three months. I think there is a general feeling on the part of the public that joint stock banks' loans are made for three months. (*Mr. Tulloch*): Are you speaking of loans to industry? (*Professor Gregory*): Loans to industry. (*Mr. Tulloch*): No. (*Mr. Brand*): An overdraft is never made for three months?—Of course, I should say they are never fixed for more than 12 months and are repayable at any time in case of necessity.

1915. *Mr. Brand*: In the majority of cases of industrial companies I suppose the overdraft goes on year after year?—Yes. We hope to get a reduction.

1916. With a good company?—Yes.

1917. It is not limited to three months or six months?—No.

1918. *Mr. Tulloch*: Have you not in your bank a system by which your managers of branches have to apply once every 12 months for sanction to the renewal of overdraft and loan limits?—Yes.

1919. Professor Gregory's suggestion of three months staggers me because that is not my experience of banking. The view that one has with reference to commercial loans is this. A concern desires to have an overdraft. It applies to the manager of a branch and the manager sends in an application, and that application may come year after year, with greater limit or less limit, as the case may be, and you criticise it at the head office. That is the basis?—Yes.

1920. *Professor Gregory*: I was not, in fact, saying that the banks never lend for more than three months. There is a general feeling that the banks try to keep their average loan down to three months. (*Mr. Tulloch*): No. You could not conduct industry on that basis. (*Professor Gregory*): Suppose you cannot, I want to ask you, Sir Harry, is there not something to be said for instructing public opinion much more definitely on this particular point, that some loans are made for 12 months, that you are in fact engaged in those particular cases in what is really moderately long term lending?—I think industry itself and the borrowing public are aware of that. In many cases they apply for accommodation for that time. The ordinary application would be for a limit and the ordinary understanding would be that that limit would run for 12 months unless anything is said to the contrary. We sometimes stipulate that the term is not to be longer than six months, but the condition applies that we have the power if circumstances demand it to require payment at any time during the 12 months. It is open to them to repay the loan at any time during the 12 months.

1921. *Mr. Newbold*: Is it not the impression of the public that the banks lend money for commercial transactions rather than lock their money up in industrial undertakings? That is perhaps how the opinion has grown that it is only a 90 days' loan?—You mean by "locking up," taking shares or debentures?

1922. No, not necessarily; five-year loans, or even longer. You might make a credit to a commercial concern much longer than to an industrial concern?—Yes.

1923. *Mr. Tulloch*: The understanding with the customer, although you grant a limit, is that you may call that loan in within a reasonable time?—Yes.

1924. *Chairman*: I see a difficulty in Professor Gregory's suggestion that the conventional proportion for advances might be altered by the adoption of a more generous policy, and that that might redound to your advantage by increasing your reputation. If it be the case that you never refuse a reasonable application for credit I do not see how you can very well enhance your reputation except by granting credit where you ought not to grant it?—I think I am correct in saying—and I think that would be the experience of most banks—that the amount of requests they get for advances is commensurate with their business. It is very seldom, I cannot remember a case, where we have had to say "We cannot grant this particular advance to industry"—mind, I will not say to other things. There may be cases when money is very easy where we might grant advances for purposes which we should not entertain at a time when there was a large industrial demand, because we should say, "No, we must keep our money for industry."

1925. *Mr. Newbold*: What kind of purposes, may I ask?—People may want to borrow money to carry stock.

1926. Do you have much of that?—No; we have a certain number of customers who borrow for a short period, but not for a long period, and when industry requires more money that is the first type of advance that would be refused.

1927. *Sir Walter Raine*: If you had the chance would you rather reduce the 57 per cent. ratio to nearer 50 or would you, if it were required, go even to 60?—You mean from the point of view of the bank?

1928. From the point of view of the bank?—I think as long as it does not exceed 56 or 57 per cent. I should have no wish to reduce it.

1929. Has it got to 57 per cent. largely through your attempt to save money that you have already put into industry? Take the case that you gave us some time ago of the firm with 8,000 people who would be thrown out of work if you did not make further advances. Have you advanced 57 per cent. involuntarily; that is to say, you really had to do it?—I think we have put up our advances in a genuine wish to afford industry, wherever possible, as much help as we could.

1930. I quite agree, but if you were a free agent, would you feel that you would be more comfortable if you had a lower proportion, or are you satisfied that the 57 per cent. is safe?—57 per cent. is high enough, I think, at the moment. You have always the possibility that your ratio of advances may be put up, not by any advances you make, but by deposits being withdrawn. So you do not want your advances too high; you get hit on both sides.

1931. *Mr. Brand*: I suppose in very good times you make advances more freely because industrial companies are making profits, or appear to be making profits?—Yes, they do not require the money.

1932. When there are good times advances and deposits are increased?—Yes, if there were better times we should be freer.

1933. The banks restrict advances when industry is not making profits because they do not feel that the advances are justified?—They do not feel that advances are so easily justified.

1934. *Chairman*: You told us, with your general experience of industry, that you have been able to meet the reasonable demands for credit for a growing business. Those are the demands that come to a banker regularly, often seasonal demands, and so on. But take a business that has had from you reasonable credit facilities, but has nevertheless been overtaken by disaster by depression of the industry due to international or other causes. In that state of matters what can the banks do? The bank has lent all the money that it can reasonably lend and the undertaking is not prospering. That must have happened in hundreds of cases recently. How far do you think the banker in those circumstances can help the industry to get back to a better position? You have indicated to us that you can act as an adviser when you are consulted, but how far is finance an aid: how far can the banks help in short?—I think when the industry has reached such a point that it has exhausted all its capital and the credit that it is entitled to have there is only one thing—to disappear.

1935. In your opinion it would be better for it to take the economic consequences, and get it over?—And get it over.

1936. It is better to have a few healthy bankruptcies?—I think it would be a great deal better for everybody.

1937. Rather than put off the evil day by expedients that are no cure?—Quite.

1938. *Mr. Bevin*: How far have these healthy bankruptcies been avoided by continual amalgamations?—I am afraid I could not answer that off hand. I have no doubt in some cases they have been.

1939. And that has probably led, you think, to a perpetuation of inefficient conditions?—In many cases, yes, I think it has, and the sooner those are done away with the better.

1940. *Mr. Newbold*: How far have the banks had any conversations among themselves, or considered the desirability of a change of attitude towards industry?—I do not think the banks have consulted among themselves very much. It is extremely difficult to get the banks together, and to get them all of one mind about anything.

1941. I should have thought in the case of certain of the merchant banks which have connections with Central Banks it might be possible to draw them together?—Oh! Where bankers are interested in any particular account—and certainly more lately than in past years—they do meet and consider what they can do, as to whether it is worth while keeping the thing going at all or whether they had better let it go.

1942. But are you not tending to generalise from the particular?—Do you mean me?

1943. I mean the banks. You must have had these particular cases again and again during recent years?—We have.

1944. Have you not begun to arrive automatically at a policy?—I do not know about policy, but certainly where banks are interested in any particular firm it is now more and more the custom and the habit of the general managers of those banks to discuss the account, as to whether it should be carried on and in what way it should be carried on, or whether it is impossible to do anything really to put it in a sound position again.

1945. *Mr. Bevin*: Supposing you have three or four fairly large firms in a certain industry, and the industry ought obviously to be rationalised, or some change produced, and the accounts of those firms are split up between the Big Five banks. To what extent does that different custom, or those arrangements with the different banks, prevent them taking the initiative?—I do not think it has.

1946. When those firms are dealing with different banks, and have different overdrafts, and different arrangements, have you found any obstacle on the part of the banks to their coming together?—No; if there were a necessity for them to come together the banks would no doubt come together and come to an arrangement in respect of overdrafts and security.

1947. *Chairman*: I think Mr. Bevin's point was, whether that division of banking interests had prevented, or might have prevented, industries taking the initiative?—I do not think it has.

1948. *Mr. Tulloch*: Is not the initiative taken by those who desire the amalgamation, and then they come to the bank? (*Chairman*): What Sir Harry has been saying is that it is only fair for the business to look after itself. At any rate, it is quite manifest that Sir Harry has had cases where people will not see the light, and where, with the assistance of an expert or an accountant sent down by the bank, better courses have been adopted. The trouble is that you may have a person who will not take the initiative. Such a person thinks that wisdom will die with him, and he will not take steps until pressure is brought to bear on him. There is the difficulty; if you leave it always to the industry to take the initiative sometimes it will not move. (*Mr. Tulloch*): There is considerable difficulty here. It is almost impossible that a bank, seeing, or recognising, that an industry ought to be amalgamated, should itself take the initiative. The banks' duty is to their own customers, and it would be very difficult for them to say in relation to any particular industry "We are satisfied the industry is not being properly conducted; you must set to work and amalgamate." (*Chairman*): That is a point where Sir Harry can help us; whether the banks in the past have looked at the business too much from the point of view of the individual customer and his account, without regard to wider questions and wider interests, whether consequently some difficulties may have arisen from that individual relationship; and whether the banks can help in the future by taking a wider outlook on industry generally. I would like to know whether that is a desirable policy. (*Mr. Tulloch*): Of course, in regard to the individual relationship, when you see the Balance Sheet of a concern it may appear to you that they cannot stand alone, and that they should take steps to amalgamate, and the bank may advise; but the bank is advising an individual customer, and is not dealing with the question of the industry as a whole. I personally have a very great difficulty in thinking out any scheme under which a bank could on occasion come in and say in relation to such and such industry "We must insist on certain things being done by the industry." That would be entirely outside their province. I think Sir Harry would agree?—Yes.

1949. *Mr. Frater Taylor*: Are you in contact with the locomotive building industry?—I think we have a few accounts, but not very many.

1950. You are possibly aware that there are a great many locomotive building firms who are not in very good shape?—(*Witness*): Quite so. (*Mr. Frater Taylor*): I believe it is the case that the German banks said to locomotive firms in Germany: "You have got to get together and have your locomotives built in the best equipped plants" and the net result of that is that we here are losing business right and left. We lost last year about 500 locomotives for India, because of the policy of the German banks. (*Mr. Newbold*): Eighteen months ago I went to Cologne and Essen to make investigation into the organisation of the United Steel Works of Germany. I was informed there, both by the banks and the Consuls that it was the policy of the banks which had forced action on the Ruhr.

1951. *Professor Gregory*: There may be cases where a whole industry is being affected through circumstances which do not arise directly out of the conduct of the industry itself, but out of international considerations—take the Lancashire cotton industry—the determining factor may come from outside. Under those circumstances the competitive position of the banks in relation to one another may result in more and more pressure being put on the industry itself. Would you agree that that is desirable?—I think under the existing circumstances—I do not say the competition of the banks—we should consider it outside the province of the banks now to take such a leading part in dictating the policy of any particular industry. In Germany the policy of the banks is entirely different. The bankers there are often shareholders in and originators of industrial concerns; they take shares, and eventually they sell them, possibly to their clients, and, in consequence, German banks at times, some of them, are very much locked up in industrial investments. You must remember the German banks, as compared with the English banks, have always had London and New York and other countries to fall back upon, whereas it has never been the custom of the English banks to take credit and draw on the German banks or American banks to supply them with money.

1952. I will come back to that point in a moment. The point I want to establish is this: That the post-War industrial position of this country is unprecedented?—Quite so.

1953. The former relations between banker and customer, owing to the unsettled industrial conditions, no longer apply; you are faced with an unprecedented position, and banking convention, whatever it may have been in pre-War days, may have to be modified. May it not be necessary to take a more collective attitude towards the problems of industry?—It may be.

1954. But you would not say it is necessary at the moment?—No.

1955. *Mr. Tulloch*: It would not be the competitive position of the banks which has prevented their coming together: it is simply that they would not consider it their job to go to an industry and say "You must rationalise yourselves"?—I think I said that.

1956. *Chairman*: It seems to me there are three ways in which amalgamations or combinations may be brought about. They may be brought about by the self-interest of the parties themselves?—Exactly.

1957. They may wake up to the position and decide that the time has come, if the industry is to recover, when they must act collectively. That is the position arising from an enlightened industry itself. In the next place it may arise by political action. Parliament may say the position of the industry is such that these people have to be compelled to do something. There is, is there not, an intermediate position, by which the banks who have so much financial control and interest in the business, might bring about the same results by a process of combined advice and pressure? I appreciate—no one more—what Mr. Tulloch has put, that the relationship of banker and customer is a confidential relationship that has always been the tradition of English banking; but, as Professor Gregory puts it, may it not be that in the circumstances of to-day, when so many conventions are broken down, the banker may find himself compelled to enter a field which he has not entered in the past? For instance, you yourself since the War have found that you are compelled to have an Intelligence Department advising you on industrial and financial matters. Before the War you got along without that quite well. That may be because you are awakening to the existence of problems which you did not have to face before. It is very high policy, of course, but it is worth exploring. Is it not possible that the banks, without necessarily adopting Continental methods at all, by doing something more on our own lines, could help in some way towards the reorganisation of industry? That is one of the problems on which I should very much like to have the views of one of your experience, because we want in our Report to make some recommendations with a view to assisting the country. What I am really wondering is whether in the banking organisation of this country we have not been too conservative, and whether there are methods by which the banks could help. Have any ideas occurred to you, in your reflections on the subject, of things that you would like to do if convention permitted?—I think the difficulty, in the two latter cases you have mentioned, is that where industries and sections of industries are compelled by Parliament to amalgamate, if that amalgamation is not a success they would have the right to go to Parliament and say "You made me amalgamate; in consequence of this I have lost all my money; what are you going to do about it?" In the same way if we as banks were to insist on our customers amalgamating, and to bring pressure on our customers to amalgamate, and the result of that amalgamation was unfortunate, they might have a considerable right or reason to turn round to us and say "Gentlemen, you have insisted upon this amalgamation, we have carried it out, we have done everything you asked, the result is that we are in a worse position than we were before. Are you going to do anything about it?"

1958. I appreciate that—that you think the responsibility that would be cast upon you would be too great. At the same time apparently you do not flinch from undertaking some responsibility, because you have played a very valuable part in some reorganisations already. There is a half-way house between complete compulsion and advice. . . .—I think advice as much as you like, but I think that when we begin to use more compulsion than to say to them "We are afraid you cannot have any more money if you go on as you are," that we should be exceeding our legitimate functions.

1959. But that is going very far, surely. If the sinews of war are not forthcoming then I imagine your advice is backed by a very important consideration?—That I should imagine to a great extent, or often, is the attitude of the banks at the present moment.

1960. You say compulsion through Parliament can never be so good as a thing that is done by agreement among the parties themselves?—No.

1961. Human nature is such that anything that is imposed from outside is generally criticised, and not worked so well as something devised internally. If these amalgamations and reorganisations can be done inside the industry itself in ways devised by others, whose advice is backed by the compulsion which the power of the purse gives, it seems a better way of dealing with the situation than leaving it to the initiative of somewhat conservative manufacturers on the one hand or Parliamentary compulsion on the other hand?—I agree with you so long as you do not wish the bankers to do more than advise.

1962. I mean instructed advice. I was thinking of this: That the bank would require, before it gave its advice, to have a reasonable fund of knowledge, so that the business to whom the advice was being addressed would say: "The banker is not a banker in the ordinary sense of the word looking at my ledger folio; he knows what he is talking about." That is why you are engaged in gathering this statistical information; so that you can back your advice by knowledge?—That is so.

1963. You are recognising now that your duty in advising your industrial clients requires of you that you shall have an organisation and a knowledge which you got on without quite well in the past?—Which there was no necessity for.

1964. Which there was no necessity for. You see what I am after. Now you yourselves are recognising that something has got to be done that you did not do in the past. Is that process not worth developing? That is to say, that you should have an association of your banks, possibly a common pool of knowledge of all the banks. Is it not wasteful to have statistics compiled by five banks for the same industry?—It is.

1965. Is there not a means, without destroying the competitive position of the banks—because I recognise the value of that—of avoiding the duplication of work which you can share?—I entirely follow.

1966. *Chairman*: There should be a common fund of knowledge with regard to industry. For example, why should not the five big banks have the same knowledge with regard to the position of the textile industry, statistical information and so on, as they will have individually? (*Mr. Newbold*): Do not your Directors very largely give you that?—Our Directors give us individually that information. I think that theoretically I entirely agree with the Chairman; practically, I doubt very much whether it would work at the moment.

1967. *Mr. Frater Taylor*: Unless industry is successful the banks will not be successful; would it not pay the banks to-day to get out of the old rut and begin to take the initiative. It surely is a very serious thing that the steel industry is in the position that it is in to-day?—(*Witness*): That is not the fault of the banks. (*Mr. Frater Taylor*): But if a man is about to commit suicide I suggest you would stop him by force if necessary.

1968. *Chairman*: There is one aspect of the individual relation of the banker to his customer which I might put to you, in this practical form. Supposing you have five mills, each of them banking with one of the Big Five banks. A mill owner comes to his banker and proposes to put in some new plant. It is quite a good proposition from the banking point of view. Each of the other four men do the same thing with their banks, and consequently the result may be that those five banks are all spending money on developments separately, whereas if the five had been working together the same efficiency might have been attained by a very much less expenditure of money. It may be the bank is not the person to bring about that collective action, but you must recognise that there are cases in industry where collective action would have a much better result than individual?—Certainly.

1969. And the bankers would be enabled by communication with each other to carry out their design, and prevent the wasteful expenditure of capital?—I agree if they came together they could probably scrap two of the mills and modernise the three to carry on the business.

1970. We have had examples in railway working: Two stations side by side in a small country town, the railways amalgamate, one station disappears. As long as they kept apart that wasteful competition went on. Are there analogous cases to that in industry?—I think there are a great many.

1971. *Mr. Bevin*: I should like to ask whether, in dealing with the financial difficulties of a firm, it is your experience that the time lag between the commencement of the difficulties and the reconstruction is not the real problem of industry; that they are gradually going down and down, and it is in that weary process that the depression grows, and inefficiency grows?—I think it is.

1972. You say it is not the banks' job—and I am inclined to agree with you—but you as a banker have had experience of seeing these industries go down, probably beginning with the dissipation of reserves, lack of renewals, failure to watch the changes going on in the world, and so on; you have gradually seen them go down, you have gone on advancing and advancing, only to see the position get worse in the end, and then there is probably writing off or reconstruction, or something of that kind. Generally I think one can say in most instances that terrible process takes about five years. Would that be about a fair period?—I think that is quite correct.

1973. During those five years we have the terrible problems of short-time, unemployment, start-ups, close-downs, nothing really accomplished, but a worse position all the time. You have experienced that as a banker. Can you suggest to the Committee anything that can be created in this country which can be watching and which can act as a bridge between Parliamentary compulsion and the compulsion that the bankers can exercise—some institution that is not quite Parliament and is not quite banking, but which at the same time is watching industry and can prevent this sort of inherent conservatism of industrial managers ruining our industry before they take action? That, I think, is our real problem. Have the banks themselves thought out what could be done? (*Mr. Tulloch*): But is it not a fact that when you are lending money you see the balance sheets year after year, and your managers consult with the customers as to the position as disclosed by excessive stocks, loss of capital, or diminishing profits? I think you will agree with me when I say that the bank manager already does exercise, year by year, in relation to the position disclosed by the balance sheet and so on, advice and supervision?—I think he does exercise a great deal of that.

1974. *Chairman*: He must to some extent, in the case put by Mr. Bevin, be a spectator. (*Mr. Bevin*): I want to press my point. It is beyond the province of the bank to do anything more than advise and watch. My point is not the question of looking at the balance sheet; the point is that probably five years earlier this condition of affairs ought to have been anticipated and a change made before industry had gone down the slippery slope where it is now?—I quite see Mr. Bevin's point.

1975. *Mr. Bevin*: And, therefore, if the banks are not the people to do it and Parliament is not the body to do it, must we always go on allowing this weary road to be travelled in every cycle of depression? Must not some way be found to do this? Have the banks themselves considered the necessity for an authority to act as a bridge between industry and the bank, or have they, in the study of their problems, really thought out how that bridge between the two can be built? (*Mr. Newbold*): The problem is this, that, unless something is done, hundreds and thousands, and probably millions, of our people are going to be without any food, without anywhere to go, and the alternatives are, you have either to solve the problem, or—revolution. (*Mr. Bevin*): Have the banks thought of any authority?—I do not think they have thought of any authority such as you suggest. No doubt, in existing circumstances, if a man were an individualist he would resent it if someone came in and said: "You will have to liquidate. You are not carrying on your business properly." I quite agree that if it could be stopped before the man had dissipated the whole of his assets it would be a great deal better for everybody—if we could see that a man's assets were gradually being dissipated, we should say: "You cannot expect any more help from us; this thing is going downhill; you had better close down altogether."

1976. *Mr. Bevin*: I appreciate your point about the relations between the banker and his customer, but the bankers could be made, could they not, a very satisfactory avenue for the collection, the very efficient collection, of information concerning the real condition and changes that were going on in industry if they were organised, as suggested by the Chairman just now, in the collection and pooling of knowledge of industrial affairs?—I think it would be an extremely difficult position for the banker to be the judge of when a man had got to close down.

1977. I am not putting them in the position of being judges at all. I am thinking of the best way to get statistical and other information of the actual facts associated with industry, assuming that they had to be passed on to another authority. Would not the banks, in view of the discussions between managers and customers concerning balance sheets and other matters, and the close contact of the bank and the industrial concerns themselves, be a very good avenue for collecting real knowledge of industry, assuming that some such body as I have indicated was created?—Yes, the banks might be able to furnish that information, but, according to the ethics of banking now, if we were to disclose to this body the position of our clients and the fact that some of our customers were going downhill, would not that rather destroy the secrecy and confidence that is supposed to exist between the banker and his customer?

1978. But suppose that that secrecy results in the end in the destruction of an industry. After all, industry is not the property of the banks, or even of the concern; it is really the property of the country. The country has to live by its industry, has it not?—Yes.

1979. If it has to live by its industry, is it a very grievous thing to destroy the secrecy if by that means you can save industry from being destroyed?—I am not sure that that would be the method.

1980. Not many years ago there was no Census of Production. It did not destroy industry when they carried the Census of Production Act. I think they have not turned it to account as well as they might have done, or made full use of the facts that they have obtained. (*Chairman*): I am not sure myself that I regard statistics as a universal panacea. There is a vast quantity of statistics stored in the basements of various buildings by which we are surrounded here, which have cost large sums of money to produce, but which have done very little for industry?—I have heard it said in the wool trade that the man who depends on statistics is sure to lose his money.

1981. *Mr. Lubbock*: Of course, an industry does not necessarily go up and down as a whole; there must be a great variety of firms in an industry, some of which are prospering, some are not?—(*Witness*): Certainly. (*Mr. Lee*): May I suggest that Sir Harry cannot answer Mr. Bevin's questions satisfactorily because we in an industry know that a firm is going down long before the banker knows; we know for quite five years when it is going downhill and into bankruptcy. It is the management as a rule which is so bad. (*Chairman*): If it is a company what about the shareholders? Do not they take a hand in bringing the management to book? (*Mr. Lee*): My experience is that the shareholders as a rule bring pressure to bear on the banks, and the banks bring pressure to bear on the firm. In a good many cases with which I have been connected pressure has been brought to bear on the firm in that way, but the banker would not touch the firm himself. We have said to the shareholder you go and speak to the banker, and he has gone and spoken to him.

1982. *Chairman*: I do not think that Mr. Bevin referred to the mere compiling of statistics as a means of securing the knowledge which is really necessary to the intelligent conduct of industry. I am perfectly certain that in industry, as in every other branch of our national activities, there is a good deal of stupidity; there is bound to be. The cure for stupidity is enlightenment, and the suggestion is that industry wants more enlightenment in some matters, possibly in financial matters. Whether any help can be got from that quarter or not is just one of the things we are considering. Have you not thought of that, Sir Harry? We all agree that it is not the business of the banker to be constantly interfering with industry. On the other hand, are there not spheres of financial assistance which are not appropriate to the banks but which would be appropriate to other organisations? I know you yourself have had something to do with assisting agriculture through a new organisation?—I have.

1983. Just tell us about that. That is an experience outside ordinary banking. How has that come about? What was it designed to do and how far has it been successful?—The Agricultural Mortgage Corporation has been far more successful, I think, than many of us who had something to do with it expected.

1984. Why was that necessary?—The business it conducts is not the business of an English joint stock bank. There was never any organisation in this country that was prepared to lend money on land for long periods, in the way the Agricultural Mortgage Corporation now lends for 60 years at a comparatively cheap rate of interest. In consequence of a great many representations to the Minister of Agriculture eventually this bank, which is somewhat on the lines of some of the banks on the Continent and in America, was started with a subvention from the Government of £650,000—it was a loan free of interest for 60 years—and a contribution towards its annual expenses for 10 years. Very foolishly, I think, the expenses were cut down so much that the Directors now get no remuneration. The staff, of course, have to be paid. The Corporation lends up to two-thirds of the value of land for 60 years at the present moment at 5½ per cent., which includes the cost of redemption. At the end of 60 years the land becomes the borrower's own property. While we thought at the time that this facility would be very little availed of by the farmers, it has been taken advantage of to a very great extent. I think we have lent six millions or seven millions in the course of one year. The capital of £650,000 was found by the banks, and in order to provide ourselves with means for lending, some months ago we issued bonds for £5,000,000 secured on the mortgages obtained or to be obtained from the borrowers.

1985. You said the banks in the plural. Were the whole of the Big Five in this?—All except the Midland. Some banks outside the Big Five were also contributors to the capital.

1986. You have found it necessary or advisable to embark on a new line of business, not ordinary banking business, because of the plight of agriculture, and you have devised an organisation in cooperation with other banks. Do you think that the idea is susceptible of being applied to other industries or in other spheres?—I think it is quite different. This was for one special purpose. This was not the banks' scheme originally, it was the Government's scheme in order to enable the farmer to buy his own land. There was great complaint that the farmer could not buy his own land, that the banks were not prepared to lend on mortgage for such long periods, they would only lend for two or three years and at varying rates.

1987. Take the plight of industry apart from agriculture. You have said there are quite a number of undertakings that would like to put their house in order that require money for that purpose, that it is not your province—probably quite rightly not your province—to lock up your money in capital expenditure of that sort. On the other hand, they cannot go to the public because they are not sure that they would attract money. Is there any expedient that could be devised for assisting industry over that gap?—I do not think a bank of that description could be started for that purpose. Of course, there have been ideas of a Steel Bank; it has been considered by practically all the banks and found to be quite impracticable. The charges and debentures and Trade Facilities Loans which many of the steel companies have contracted would present almost insurmountable difficulties in the way of adopting any such scheme as the Agricultural Mortgage Corporation, where the land was practically free of charges.

1988. Have you known a case where there has been an undertaking which has ventured to put its house in order, recognising that it would be a costly thing to do, and recognising equally that it is not your business to put money into the undertaking, and that undertaking has approached you again?—I do not think so up to the present. I think some of them are in process of doing so at the present moment, and when their undertakings are written down to a reasonable capital value, on existing values, I think it may be possible for them again to be able to raise some money.

1989. Then the first thing for them to do is to put their house in order?—To put their house in order.

1990. Then, when they have put their house in order they can come again in the position of persons who are entitled to receive credit and will receive credit?—I think so.

1991. *Professor Gregory*: Are you satisfied with the existing facilities for long period loans which are offered to British industry?—Of course, long period loans are undertaken by the financial houses rather than the banks.

1992. I quite realise that. Do you think there are inadequate opportunities for the smaller industries in the provinces to get flotation facilities?—I do not think so, if it is a good proposition. This is a bad time, but ordinarily I do not think so.

1993. You do not think so in the case of small industries that do not want more than £50,000 or £100,000?—I think there are institutions in London who are prepared to lend those sums—the trust companies sometimes do business of that kind, I think.

1994. You do not think there is room for an institution which would issue its bonds against the debentures or preferred stocks of private corporations?—I do not think it is practicable at the present moment.

1995. *Chairman*: Have you at the present moment a much larger number of overdrafts which are frozen —that is to say, there is no movement in them—than you have had in the past?—There are certainly rather more now. I think that is a necessary corollary of the difficult times.

1996. *Mr. Lubbock*: If businesses are making profits they pay you off?—They pay us off.

1997. They cannot do it now?—They cannot do it now.

1998. *Mr. Frater Taylor*: Mr. Chairman, part of our duty is to find out how more credit may be made available for industry. May I mention a thought that occurs to me? Sir Harry talked about the great number of branches. Would it not be possible for the joint stock banks to get together and do some rationalisation on their own account and set free a certain amount of money in that direction? That is my first question. My next question is this. The banks are now reduced to five. What would be the effect of a greater compression? Would there be less necessity for reserves with the Bank of England; if that compression took place, would more money be set free?—I think in answer to your second question that there have already been complaints that there are too few banks. We are generally told that amalgamations have so destroyed the relations between the client and the banker that the small man can no longer get any money.

1999. *Mr. Tulloch*: You do not admit that about the small man?—I do not admit it for one minute. That is what the complaint is.

2000. We none of us admit that, do we?—No.

2001. It is not true?—(*Witness*): I do not think that less competition—although the competition is quite disgraceful at the present moment—would be an advantage to anybody. In fact, it would be the other way. I do not think it would pay industry if we were to shut up our branches and devote the small amount of money we might get out of that to lending to industry. To my mind what industry wants is not more facilities, but more buyers, more buyers from abroad. (*Mr. Tulloch*): More markets.

2002. *Mr. Newbold*: Where?—Abroad.

2003. Why not at home?—Well, at home also. First of all supply the home market, but the other also; the larger market is abroad and exports are most essential for this country.

2004. *Mr. Frater Taylor*: The industries in order to get customers must have money to put their house in order. Is not that the position?—(*Witness*): I do not agree that industry has up to the present been unjustifiably refused money that was necessary. (*Mr. Frater Taylor*): I am stating a fact that concerns us vitally, that there are many industries to-day which could put their house in order if they were given money.

2005. *Mr. Newbold*: Do you not think that in view of the very distinct tendency to amalgamation among banks abroad very shortly in England you will have to have further concentration?—Well, I doubt it.

2006. Do you not think so? It is the case that Germany is rationalising her banking system, Belgium is going to do the same, there is the same tendency in America?—I think there are far more banks in Germany now than there are here. They have never amalgamated to the same extent as we have. There have been two or three amalgamations there during the last few months.

2007. There is the Big D?—There are the Big D banks but there are a great many smaller ones.

2008. *Chairman*: We are much obliged to you, Sir Harry, for having come this afternoon.—Thank you very much.

(*The Witness withdrew.*)

(*Adjourned.*)

TWELFTH DAY.

Thursday, 13th February, 1930.

PRESENT:

The Rt. Hon. LORD MACMILLAN, *Chairman.*

Sir THOMAS ALLEN.
Mr. ERNEST BEVIN.
The Rt. Hon. LORD BRADBURY, G.C.B.
The Hon. R. H. BRAND, C.M.G.
Professor T. E. GREGORY, D.Sc.
Mr. J. M. KEYNES, C.B.
Mr. LENNOX B. LEE.
Mr. CECIL LUBBOCK.
The Rt. Hon. REGINALD McKENNA.
Mr. J. T. WALTON NEWBOLD.
Sir WALTER RAINE.
Mr. J. FRATER TAYLOR.
Mr. A. A. G. TULLOCH.

Mr. G. ISMAY, *Secretary.*

Mr. J. W. Beaumont Pease, Chairman, Lloyds Bank Limited, called and examined.

2009. *Chairman*: This afternoon we have the advantage of the attendance of Mr. J. W. Beaumont Pease, Chairman of Lloyds Bank Limited. There has been circulated among the members of the Committee a précis of the evidence that Mr. Pease proposes to give. If I may say so, Mr. Pease, it is a table of contents, to a large extent, of the various topics. First of all I think you might shortly describe to us the organisation and method of working of the bank, having particular regard to your contact with customers who are wanting advances and the machinery that you have for dealing with such applications. The first part of your précis is formal and provides us with figures which are in your Annual Report and Balance Sheet, the amount of capital, and the number of your Board. I think we might note two facts in passing. You have 65,000 shareholders,—I suppose their holdings vary from quite small amounts to large?—The average holding is £224.

2010. Then you say regarding the Directors of your bank. "The bank's Directors are chosen for their detailed knowledge of the country's industries and trade conditions. Some of them have had long association with British banking, having been active partners or directors of banking institutions absorbed by the bank." Of course, your bank like others is the result of a series of amalgamations?—Yes, very largely.

2011. You have, I think, some observations to offer us later upon the policy of amalgamation. Have you on your Board Directors who have themselves been engaged in the leading industries of the country?—I think I may say that every member of the Board has either been a banker in a private bank or a joint stock bank which we have absorbed, or is a representative with expert knowledge of particular industries or districts where the bank is represented.

2012. The district of England with which you are specially associated is Birmingham?—The bank, or myself personally?

2013. The bank?—Birmingham is its birthplace.

2014. Historically it is associated with Birmingham?—Yes, and for many years its head office was there, and then for a period of years we had a joint head office at Birmingham and in London. About 15 or 20 years ago the head office was transferred permanently to London.

2015. Has that early association kept you in special contact with the industries in the Birmingham district?—We are very largely represented there. We have many branches in the immediate neighbourhood of Birmingham, and the suburbs of Birmingham, and in all the big towns round about in the Midlands, but I should think we are equally thickly represented in the north-east of England, where my own private bank, which was absorbed by Lloyds Bank, was situated.

2016. *Mr. Newbold*: Which one was that?—Hodgkin, Barnett, Pease, Spence & Co.

2017. *Chairman*: So you have had associations, and still have, I suppose, with the coal and shipbuilding industries on the north-east coast?—Yes.

2018. *Mr. Newbold*: Very considerable connection with both steel and coal, have you not?—As a bank, no, not very largely. Some very important concerns bank with us but the steel connection up on the north-east coast we are not largely interested in.

2019. But in South Wales considerably?—South Wales.

2020. You are closely associated with Baldwins, for example?—(*Witness*): Yes, and with its subsidiaries. (*Mr. Newbold*): You will probably be able to give us some information with regard to the reorganisation of the steel industry in South Wales.

2021. *Sir Thomas Allen*: Is Mr. Evan Williams, the Chairman of the Federation of Colliery Owners, on your Board?—I forget his actual title, but he is Chairman or President of the Association. He is on the Board of the bank.

2022. *Mr. Newbold*: I see you seem to have many connections with wool; in Yorkshire you seem to be strongly represented.—Yes.

2023. *Chairman*: Each of the large banks, while associated with all the industries, seems to have a special relationship to one or other of the great industries. In the case of your bank may we take it that your special associations are with the industries of Birmingham and the north-east coast and of South Wales?—And the west and south-west—big agricultural interests.

2024. *Mr. Newbold*: Then you have big connections in Scotland, have you not, through your holdings in the National Bank of Scotland?—Yes.

2025. *Chairman*: In that case you are pretty well distributed?—We are very well distributed, as will be seen from an analysis which I have made more or less public, of the proportions of our advances to different trades.

2026. That is very interesting. Am I taking you out of your order; would you rather take that a little later on?—Just as you please. I do not mind.

2027. First of all we had better have the general organisation of your bank, and then come to the analysis of the advances.—Actually, on the organisation, I should think it is probably fairly well known to most members of the Committee that our Head Office is in London. We have two Chief General Managers, who are head executive officers of the bank. They are assisted by five Joint General Managers, and four of those are in direct control or in direct charge of the advances of the bank, and for that purpose the branches are divided into different areas of control. One of these General Managers also acts as District General Manager in Birmingham, which, as I have said, was our old Head Office and birthplace. He is stationed there in connection with the bank's advances in the midland counties. The fifth General Manager has control of the staff. He is responsible for their discipline, their proper training, keeping his eye on all those who are showing signs of being fitted for higher duties, and transfers and promotions and so on. In addition we have district offices in one or two important centres—Birmingham I have already mentioned, Newcastle-on-Tyne, Halifax, where we absorbed a local bank; and then abroad in India.

2028. The next sentence in your précis is one which specially interests us—the method whereby you deal with the control of the bank's advances. You say, "The general supervision of the bank's advances is in the hands of Controllers stationed in London and at the District Offices, and these officials are directly responsible to the Joint General Managers"?—The actual process for advances in the country would be, that the Manager of the branch, to whom a customer would come asking for a loan, would put forward the particulars on a Form of Application, which would go up to Head Office, or, if he were in a district area, it would go to the District General Manager. That application is considered by the Controller who is in charge of that particular district, and if approved by him it passes on to the General Manager, who is in control of the same district, and if it is within a certain limit it is sanctioned there and then and notice is sent to the branch where the application came from. If it is over £15,000 the Chief General Managers or the General Managers bring that up to the Board or to a Committee of the Board, who deal with these advances and decide whether they shall be granted or not.

2029. Has every application for an advance to go through that process?—Yes, unless in a few of the bigger branches where the Manager has a discretionary limit up to, say, £1,000, or something of that sort.

2030. *Sir Thomas Allen*: What part do the Local Advisory Committees, if any, play in deciding the question of advances?—They act as a committee of the bank, and in some cases are the remnants of the old local board of directors, and they pass these applications and send them up to Head Office with recommendations.

2031. *Mr. Tulloch*: The Branch Manager would get his reply next day, I take it, in all cases?—If it were required.

2032. Normally speaking, the decisions take more than a day?—As I have pointed out, applications for over £15,000, according to our principles and practice, are referred to the Board, which meets once a week only.

2033. *Chairman*: Do these local boards of which you have spoken assist you by their local knowledge and their contact with the people?—Very considerably.

2034. It is said that the large banks now are less in touch with the individual customer than they used to be. Have you succeeded in maintaining that contact through these local boards?—Yes; I believe that that criticism, which is a natural one, is without foundation. Perhaps I am specially qualified to answer that, because I was a partner in a private bank, and the procedure was very much the same in my old private bank as it is now. My private bank was in Northumberland, and our Head Office was in Newcastle. We had branches all round in the neighbourhood, and a branch manager, say, at South Shields, who wanted to give an advance to his customer, would confer with us at Newcastle just in the same way as he does now with the district manager in Newcastle, or direct with London. Time is getting on, but the Branch Manager is very likely still the same individual as he was under the old régime. Whether it is he himself or his successor, he has just the same local knowledge and just the same local sympathy in regard to the requirements of the district now as he had when he was the servant of a private banking firm.

2035. Take the case of an application for a loan of over £15,000, which has to go in every case through a joint general manager to Headquarters. Is not their decision as to whether the advance should or should not be made arrived at on reports made from your local centre?—I do not think more so than in the old days. We had to see that all the particulars were put down on paper. We who gave the decision sometimes actually knew the individual head of the firm who was making the application. But I think to all intents and purposes the contact is just as close now really, and I know from my own experience that under the prsent régime the old customers of my old private firm are getting very much larger banking facilities than they used to.

2036. Is that because there are larger resources than there used to be in the old private firm?—It is partly that, partly that the customers have grown; but in many cases, such as farmers, the conditions have been very much the same; they have been in the same farm and are still in the same farm as they were when I was in the North, yet their accommodation has not been lessened. In many cases it has been increased.

2037. May that not be because their necessities are greater, unfortunately?—There are many such cases, of course; but the point I am trying to make is that amalgamation in that respect has not lessened facilities.

2038. *Mr. Tulloch*: It is sometimes claimed that under the amalgamated system of banking the small man is getting infinitely less attention than he used to. What do you say to that?—There again, we were dependent upon the advice and opinion of our local managers, who knew the small man. We, partners sitting in Newcastle, did not necessarily know the small man at South Shields, or Sunderland, or Alnwick, or one of the neighbouring towns. We formed our opinion very largely on what the local managers told us, and I think very largely the same thing prevails now, and he would receive the same sympathy or want of sympathy from Head Office as he did under the old régime.

2039. In other words, the size of the bank has really made no difference in that respect at all?—That is my own opinion.

2040. Quite apart from other things, the competition among the banks would ensure the small man receiving attention?—Undoubtedly.

2041. *Sir Walter Raine*: Could you tell me if the District Officer in Newcastle deals with the small man without reference to London?—Yes.

2042. I am not thinking of the £15,000 overdraft but of something in the neighbourhood of £1,000 or £2,000?—Yes.

2043. Would the District Manager, together with the Advisory Board, deal absolutely with a case like that without referring to London at all?—Certainly.

2044. *Chairman*: And I suppose it is brought to the knowledge of London in the weekly report which you get showing the state of advances?—The records come up to London.

2045. You exercise a supervision in that way?—Yes.

2046. And your Inspectors see the accounts coming from each branch?—Of course, the whole question of amalgamation affords a certain amount of ironical amusement to bankers, because as the wheel comes round what used to be considered a danger, a step in the direction of monopolies and so on, is in other industries now held out very much as one of the means of salvation. Banking—which I believe as a matter of fact is an industry in which amalgamation has been an unqualified success—is the one industry which has had all sorts of obstructions put in its way, and short of actual legislation I think various Chancellors of the Exchequer have said that they would not countenance any more bank amalgamations, and a Special Advisory Committee has been appointed to examine the merit of any proposed amalgamation, and without its sanction an amalgamation in banking is practically impossible.

2047. I think you are quite content with the extent of the amalgamations that have now been made?—Yes.

2048. *Mr. Newbold*: Do you think it has gone far enough?—If you are thinking of amalgamation between the big banks, I think it has.

2049. You do not think the present tendencies in Germany and America have made it necessary to go in for still greater consolidation?—No, I do not think any good purpose would be served by that.

2050. *Mr. McKenna*: You had personal experience in the North as a private banker in the old days?—Yes.

2051. You remember what was the degree of competition you suffered in those days from rival banks?—It is difficult to put a degree.

2052. You remember there was competition. Would you say the competition to-day that you have to submit to in the North is greater or less than what you had in your private bank?—It is greater.

2053. To-day?—To-day.

2054. *Chairman*: Has the competition been intensified in the case of the Big Five?—Yes. I think that is natural, because formerly we were almost exclusively banked by private banks in the North; the partners of the different firms used to dine at each other's houses, they were on friendly terms and there was a feeling that it was not quite fair to take away accounts. I think competition was certainly less in those days than it is now.

2055. It is more impersonal now?—Yes.

2056. Do you think that competition has overstepped the limits of economic competition? Sometimes competition may become uneconomic by bringing about overlapping and duplication?—It is very difficult to answer that question sweepingly. Sometimes we lose an account to a competitor and are very glad it has gone, and to that extent you may say it has been an uneconomic proposition on the part of our competitor. On the other hand, we sometimes regret that it has gone. I should say, generally speaking, all the bankers are pretty well able to look after themselves and they are not likely, even with the keen competition there is, to take an account which they think has no economic value.

2057. You said that the official view of the Treasury had been that amalgamations had gone far enough. Does not that mean that as regards the Big Five further amalgamations might be undesirable? Was it their policy to prevent the absorption of smaller institutions by one or other of the Big Five?—I understood the announcements that were made in the House of Commons, for instance, by different Chancellors of the Exchequer referred to any amalgamation of the Big Five, not with each other, but with any other concerns.

2058. *Lord Bradbury*: As a matter of fact there has not been an absorption of any big bank by any of the Big Five for some years now, has there?—In our case, the last, I think, was Cox's.

2059. That is about the last, is it not?—Yes, I think it was.

2060. *Chairman*: Henry S. King was your last one, was it not?—That was the same time as Cox's. King's had really amalgamated with Cox's before we took over Cox's.

2061. *Mr. Tulloch*: You say you think that amalgamations have gone far enough in the matter of the size of the big banks?—No, I did not say that.

2062. I am sorry; I thought you did. Do you think there is a maximum limit to the size of a bank? Could you envisage your bank doubling up with one of the others of the Big Five and being managed equally satisfactorily from the point of view of the bank and of the public?—What I said was, that I did not think any advantage would be gained by any of the Big Five amalgamating with each other, but it is conceivable that another amalgamation with one of the Big Five might be of advantage to both parties.

2063. You mean an advantage from the point of view of ability to supply the needs of trade; but would you see any disadvantage in your becoming twice the size you are to-day by amalgamation with another bank or banks?—I have not seen any disadvantage as we have been growing. In the last 20 years or more, since I became connected with Lloyds Bank, I suppose we have trebled our size at least; I have not seen any disadvantage during that process, but I should not like to say that some figures would not be unwieldy to manage. Exactly what that point might be I think it would be difficult to say. I had a colleague on my Board 20 years ago who said that when our figures reached the point of £100,000,000 liability to depositors he was going off; but he has not gone off yet, so he has evidently reconsidered his view.

2064. *Sir Thomas Allen*: I would like to have a little more clear in our minds the relationship of the Advisory Committees to the local management. Do they sit periodically and how do they advise the local management, if at all, in respect of any advances for the assistance of local industry?—The District Manager is in his office in any particular district, sitting all day and every day.

2065. What do you mean exactly by the District Manager's Office—what is its nature?—Let me give you a concrete example. Take Newcastle, which is the centre of that North-Eastern District, Northumberland and Durham. Any Branch Manager in one of the towns in that District who has an application for an advance which is beyond his discretionary limit—if he has a discretionary limit—would apply to the District Manager.

2066. *Chairman*: At Newcastle?—At Newcastle. And the District Manager would give his answer, if it was not a Board matter, and the Manager of the local branch would pass that on immediately to his customer.

2067. *Sir Thomas Allen*: But at what point does it become a local advisory committee matter, if at all? —Are you drawing a distinction between the local advisory committee and the District Manager?

2068. Yes, I am drawing a distinction between the District Manager and the Advisory Committee?—The Advisory Committee acts in exactly the same way as the District Manager does, but the Advisory Committee is generally the result of an amalgamation and is composed of members of the old board of directors.

2069. I follow that.—The applications for advances from the branches in his District, or the District under that Advisory Committee, will come up to the Advisory Committee who meet once a week, twice a week, or in some cases every day.

2070. *Chairman*: And will the District Manager have access to that Committee and put any question he may have before that Committee?—Yes, certainly.

2071. Take a practical case. A customer comes along and wants an advance, and perhaps it is rather a doubtful case. Will it have the advantage of being considered by this Committee of local gentlemen who know the conditions of the industry before it is either turned down or granted?—Certainly. That is what they are there for.

2072. And will no application be turned down before it has had a chance of even being put before such a body?—Oh! yes; that might happen. A local manager might see that it was so unwarranted from the banking point of view that he would not put it forward.

2073. I am assuming any reasonable meritorious application.—No, that would go to the local committee.

2074. Some applications must be quite impossible, and not worth troubling the local committee with, but in the case of any meritorious application would it have the advantage of going before this body of local gentlemen before it was turned down?—Certainly.

2075. And is this body resident in the Newcastle district?—Yes.

2076. And does it meet in Newcastle?—Well, Newcastle is not quite an appropriate example. There is no advisory committee there; there is only a district manager, who is an official of the bank.

2077. You have not a district board there?—We have not a district board. We have in Halifax.

2078. What Sir Thomas is asking you is, how far these local applications have the advantage of coming before people who know the local circumstances, and consequently are able to give judgment on their merits which may look very much better to the man than they look on paper.—In every case that happens; the person knows the local manager, and he may go to him or the district manager, who also lives in the district, and who knows the man intimately, or knows all about him; or, if there is an advisory committee there, it goes to the advisory committee.

2079. If there is not an advisory committee it depends on the local knowledge of the manager?—Yes.

2080. Of the district officer combined with the even more intimate local knowledge of the branch manager?—Yes.

2081. There is a combined local knowledge?—Yes.

2082. Can you tell us—because we have had different evidence upon this subject—do you find yourself in practice always able to give advances in cases that are reasonably meritorious?—You mean because of the position of our figures, our accounts.

2083. Yes.—I do not know of a single instance where we have turned down a trade advance because we did not think we had the money to lend. When the proportion of our advances to deposits has been high—and it is high—when it has been higher than we thought desirable we have granted the trade advance and we have called in other advances which we thought less necessary in the interests of the country, such as Stock Exchange loans, and things of that sort.

2084. Then does that mean that you give a preference to industrial advances over commercial advances?—Yes.

2085. *Mr. McKenna*: When you say Stock Exchange loans, you are not referring to short money? —Not to short money, but to actual loans for the purpose of Stock Exchange investment.

2086. To private customers?—To private customers and to stockbrokers.

2087. Stockbrokers?—Yes.

2088. Do you not include stockbrokers in your short money?—We have two distinct categories in connection with stockbrokers. As regards the short money which we lend on the fortnightly Stock Exchange settlement to stockbrokers, we lay down a general rule that not more than 25 per cent. of our short money should be lent in that way. The other category comes under the head of advances and represents loans to individual stockbrokers, which is less than one per cent. of the total of our advances.

2089. Do those advances to stockbrokers appear in your percentage of loans and advances, which I understand is about 58 per cent.; something of that sort?—Not the fortnightly loans, but all those loans to individual stockbrokers not included in the fortnightly call money.

2090. Have you any general view in Lloyds Bank as to what the reasonable limit of the percentage of advances to deposits should be?—That is a very difficult question to answer, of course.

2091. It is?—And one's views have become rather more liberal in recent years. A short time ago, as a rough and ready rule, 50 per cent. was regarded as more or less normal, and, after that, you would have to begin to think a little. Now I should say the attitude of the ordinary joint stock English bank has rather advanced, and instead of 50 we would put 55 to 60 per cent.

2092. *Chairman*: Has anything very dreadful happened because you have advanced from 50 to 55, or possibly beyond that? Have you noticed any symptoms?—Nothing at all.

2093. It is therefore to some extent a conventional figure?—It is.

2094. If we had had the chairman of a bank here 10 years ago, he would have been shocked at going beyond 50?—Possibly.

2095. Now we have you, who are not in the least shocked at 55. May we conceive of a banker 10 years hence not being shocked at 60? Is there any principle behind it, or is it simply a conventional figure?—There is a principle behind it. I am not frightened at 55 to 60 now, because I know the banks are really much stronger than they were 20 years ago, they have bigger reserves, and they are in better credit in the country. But if the proportions went on rising consistently, and got up into higher figures, there is no doubt the public would begin to criticise, and directly they did begin to criticise, and there was talk about it, in such a delicate matter as anything in the nature of credit there might be difficulties for the banks.

2096. Then is it reputation that is really the important thing?—It is the credit that you have with the country, with the public. My bank has taken over banks which had a proportion of 80 per cent., and that percentage was criticised. Possibly that was one of the reasons why they felt obliged to come to us to ask us to amalgamate with them.

2097. *Professor Gregory*: Supposing that all the Big Five separately advanced their proportion from, say, 50 to 60, do you think there would be very serious danger of public criticism?—No, not at 60; I do not think there would.

2098. I do not want to pin you down to any definite figure, but the point of my question was not that. I suggest that the danger of public criticism of the banking system arises when one bank does something which the others are not doing rather than from any general alteration of banking policy?—Well, it certainly causes comment, and draws attention, if a single bank does it.

2099. *Mr. Brand*: Are you quite sure that before the War some percentages were not nearer 60 than 50? At that time I thought they were rather high?—Well, as I say, we took over a bank where the percentage was 80.

2100. Yes, but nothing to correspond to the Big Five now; the biggest banks of those days would not correspond with the Big Five?—No, I would not like to say there were not some big banks who, without being criticised, were high.

2101. My impression is, that the figures were very high at one time?—Before the War?

2102. Yes. And that it is not an entirely new phenomenon?—No. I should have said generally speaking, that the proportions were lower before the War, and if you asked a number of bankers, I think in the majority of cases they would have said at that time that probably 50 was sufficient.

2103. *Professor Gregory*: That is very largely based upon the peculiar experience of advances during the War. If I remember, the proportion of money held at short call during the War rose very greatly. Our conception of the relationship between short money and advances is very largely influenced by the extraordinary liquidity of money during part of the War period?—I have not the figures; I should think it was quite possible.

2104. *Chairman*: Is not your figure, according to your last published account, about 54·3 per cent.?—That is so, but if you are comparing it with other banks it is only right to say that our figures are not quite on the same basis as theirs. Our Balance Sheet is drawn up in accordance with the Cunliffe Committee's recommendations, and has been more extended than some of the other banks'.

2105. I see you give more detail, do you not?—More detail; and the actual figure which appears under " Loans and Advances " in our case is practically confined to that and does not include other accounts.

2106. *Mr. Frater Taylor*: There is another item. " Money at Call and Short Notice." Would not that come into account?—No, that never came under advances.

2107. *Mr. Keynes*: Is this a right interpretation of what you have been telling us about your policy in granting advances: That the total of your advances is influenced by your figures, that you seldom or never allow credit stringency to fall on your industrial advances; it would fall on some class which you considered less desirable?—That is true.

2108. But the *total* of advances is affected?—Yes. There have been one or two occasions when we have drawn in advances of one type in order to make advances of another. Those have been quite exceptional cases at special times.

2109. If a private customer wanted a loan to buy a house would you ordinarily grant such a loan?—That would depend very much on what the prospects were of repayment. We should not like to make a loan which was in the nature of a permanent mortgage on a house; we would not consider that a desirable form of advance.

2110. Is that a type of advance which would fluctuate according to the amount of funds you had available?—No, I was not thinking of that kind of advance so much, although it would be possible, if you had made an advance to a man to buy his house, to ask him to get an outside mortgage and repay you, but I do not think in the ordinary way you would give an advance for the purpose of buying a house on the understanding that that was a permanent loan.

2111. *Mr. Brand*: Would you say there are periods when the banks lend much more freely, and do not consider their percentages, and periods when they look with a much more jealous eye on advances?—Yes; those periods have arisen.

2112. *Chairman*: Let us put it this way: Suppose you are looking at your position, and you find you are up to 55 per cent. Does that not have a certain effect upon your mind when another application comes along? First of all, if you are going to grant an application without getting relief elsewhere, it means you are going to exceed your 55. If you are not going to exceed your 55 you have got to call in money from somewhere else. That means you have got to take a step, to do something. There is always reluctance to do something in this world. You may say, " Is it worth while taking the trouble to call in this money for the purpose of meeting this other application "? When you are at the margin is not the effect to make you act with greater stringency?—It might have that effect on our mind, but, as I say, I cannot remember a case where we have refused an advance, which we thought was a meritorious one, for industrial purposes.

2113. Is the scrutiny more perfect as you begin to get near the limit?—I suppose the tendency would be that way.

2114. *Mr. Brand*: Might you think an advance was meritorious in one frame of mind that you did not think was meritorious in another?—Yes.

2115. *Mr. McKenna*: If a customer comes forward with an application, say, for a couple of hundred thousand pounds to carry out a property clearance scheme, if you are at the time as fully lent as you wish to be, does it not happen that you discuss the proposition with the customer from the point of view of getting him to reduce the amount of his application or to postpone part of it?—Certainly; to make arrangements for payment within a moderately easy term.

2116. Do you not endeavour to get him to cut down the application and try and satisfy him with £100,000 instead of £200,000? Do you not discuss the scheme with him and try and get modification of the scheme in order to reduce the amount?—I do not think I can say that you do it in one case more than you do in every case. You never want to give to anybody more than is required or justified.

2117. Do you not take special steps to reduce the amount when you feel you have lent more than you ought to have lent?—I think, generally speaking, that would be the tendency.

2118. *Mr. Keynes*: Do you ever issue instructions to managers pointing out that the bank is rather fully lent and you wish them to be on the strict side?—I think we have on one or two occasions advised some of our principal managers not to make the less desirable type of loan because we were already sufficiently lent.

2119. *Chairman*: Does less desirable means less desirable from the banker's point of view—less secure?—No, I was not thinking of that, I was looking at it from the point of view rather of trade and industry. The advance which is granted to a person to speculate, not only to an individual but companies, and for the purpose of holding an investment which has not any particular trade significance behind it; it is that kind of advance that I mean.

2120. The really operative question with reference to the existence of this conventional limit of 55 to 60 to which you work is,—have you in practice found that the existence of that conventional limit has restricted the supply of credit to industry?—No, not to industry.

2121. *Mr. Keynes*: The total volume of lending power of the banks which they exercise by advances and investment influences the rate of investment in the country as a whole. When there is more or less available is that felt wholly in investments and bills, or is it spread through all the categories of bank lending and felt right through? What you are telling us is that practically the whole of the fluctuation, according as the central policy of the country is strict or less strict, is in the volume of bills and investments, and not at all in the volume of advances?—Is that the consequence of what I have said?

2122. *Chairman*: Is that the upshot of your evidence?—No, I did not think so. It is quite simple from our point of view. A trade advance, if it was a reasonably sound one, we would grant, and have never refused; but if we thought we were up to a sufficiently high percentage of advances to deposits we would grant that trade advance and we would call in some other advance.

2123. *Mr. Keynes*: The change in the reserve proportion of the Midland Bank meant that the banks as a whole could lend some £80,000,000 more; of which, no doubt, you had your share. Was the effect of that simply to increase your investments and bills, not to increase your advances, as compared with what would have happened if the Midland Bank had retained their old ratio?—Our advances have been increased since the Midland Bank changed their ratio.

2124. *Mr. McKenna*: I understand the only increase that has taken place has been in what we may call finance advances, not trade advances?—I do not think I could say that.

2125. *Mr. Keynes*: That is what I thought you were saying. (*Mr. McKenna*): I understood you to say that. When you have lent as much as you wish to lend in the form of advances, and trade applications are received by you, you always meet those trade applications, but call in another advance, which is not a trade advance—we will call it a finance advance. You redistribute your advances. Is that what you mean?—That is exactly what I mean.

2126. *Mr. McKenna*: What proportion of finance advances have you got?—As I say, under one per cent. to stockbrokers; but then we adopt the classification of the Federation of British Industries, and the particular category of what is called "personal and professional" may contain many examples of a private individual who does not come under the heading of stockbroker but who has speculated on the Stock Exchange and has borrowed money for that purpose.

2127. Are those large?—The personal and professional group is the largest of the lot.

2128. *Mr. Keynes*: Is that a group that you would put pressure on?—Not on the group; only on those personal ones which come in the category of speculators.

2129. If the Midland Bank had not made the change in their ratio your bank would have had £16,000,000 less to lend in some form or another. What was the effect of the change? Has that £16,000,000 all gone into investments?—As a matter of fact our advances have gone up since that date. Our investments have gone down. And I should think our Treasury Bills certainly have gone down.

2130. You think that is what has caused you to lend more to industry and miscellaneous borrowers?—Yes; if you can attach it so closely to that cause as that.

2131. *Chairman*: May we get at it this way. I think you have been in the practice of giving information at your Annual Meeting of a very interesting character regarding your advances. In 1927 you gave very detailed information as to the distribution of your advances, did you not?—Yes.

2132. In subsequent years I do not think you have repeated the figures, have you?—I do not think in such detail. I have got them here, and have no objection to giving them.

2133. They would be very interesting. We are looking at you as a great distributor of credit, and we want to see how your credit is distributed, and the adequacy of the system under which you distribute it. The first thing is to see where the credit goes to. Then we want to know what controls the extent of the resources that are available to you. If one looks at the 1927 figures one is very much struck by the large amount that comes under the head of "Personal and Professional"?—We are adopting what I believe is the classification of the Federation of British Industries. That is a very misleading heading, but I do not know how you can do away with it. It is quite obvious that although an advance may come under that heading, "Personal and Professional" it may really be an advance for purposes of business. It may be for the purpose of improvements on an individual's farm, it may be for the building of his house, it may be for Stock Exchange speculation. Therefore, although it is under that heading because the account is in the name of a private individual the actual advance may be for quite a different thing.

2134. Have you got there for the last two or three years the distribution of your credit?—No, I am afraid I have not, but if you have my figures for 1927 I can give you last year's as compared with that.

2135. It would be very useful if you could give us that. I notice in your bank speech for this year that you said that your annual analysis of overdrafts classified according to trades showed little of outstanding interest this year. Out of 31 groups, 18 showed increases and 13 decreases, the variations upwards or downwards being quite small. Then you proceeded to give some general information. But if you have actually an analysis for the past three years of the distribution of your overdrafts among the 31 groups, it would be interesting to see that, if you have no objection to supplying it?—I have not got the three years. I have got this classification for last year and, as I said in my speech it does not show any very big variation from the previous year or, I should imagine, from 1927. Agriculture still has the biggest amount—9.67 per cent. of our total advances—if you eliminate that omnibus item of "Personal and Professional," which I have mentioned——

2136. *Mr. McKenna*: What is the amount of the omnibus item?—The omnibus item is 27 per cent.

2137. *Chairman*: Will you give us the percentage for the group which you call retail?—The retail is 7.74.

2138. Local authorities?—3.13.

2139. Iron and steel?—2.33.

2140. And coal?—Coal is 1.83.

2141. *Sir Thomas Allen*: This question of the limitation of bank credit to industry is one of the most important, I take it, that we have to consider. It would appear from the evidence submitted that the conventional limit of credit by a particular bank is in fact a common limitation over the whole number of banks. If that be so, and the Witness has already told us that he sees no advantage in a further amalgamation of the big banks as they now exist——Between ourselves.

2142. *Sir Thomas Allen*: ——between themselves; and this limitation is a more or less understood limitation of credit to industry, would the witness agree that a further amalgamation would make it possible for a wider credit to industry to be operative, if not among the banks themselves, under a big rationalisation scheme; that agreeing among themselves they could extend this limitation in order further to help industry?—Well, I do not think any particular advantage or result would accrue from an amalgamation between big banks in that respect, but if all the banks allowed their percentage of overdrafts to go up over 60 I think they enjoy such good credit in the eyes of the public that I do not believe that that would create any particularly adverse comment. At what particular point people might begin to say, "These banks are going too far," it is impossible really to say. It depends very largely, of course, on the liquidity of the banks' assets. Some of the colonial and foreign banks have over 100 per cent. lent, but then their assets chiefly consist of actual goods on the seas, perhaps on the way to England, which will be turned into money when they get here and are represented by documentary bills which are self-liquidating.

2143. *Chairman*: If it be the case that no reasonable application for credit is turned down by you, there is no particular reason for providing more credit unless a more ample supply of credit, or availability of credit, would in turn stimulate a demand. Do you think that people do not come to you for credit, who might otherwise come, knowing that you are not in a position to assist them?—I have never heard of such a case. I think anybody who wants money comes and asks for it quite as quickly as you could expect.

2144. *Mr. Keynes*: Could we go back to the distribution of advances? The items you gave us came to just over 50 per cent. altogether. What is the other 50 per cent.?—The different headings?

2145. The different headings?—Banking, Insurance and Finance; Retail; Miscellaneous, ... etc.

2146. Banking, Insurance and Finance, how much?—8.50 per cent. Miscellaneous—which groups several that you cannot put into any of the others—3.98 per cent. The actual headings I will read quickly through. Engineering; Foodstuffs and Tobacco; Local Authorities; Building Trades; Cotton; Shipping and Shipbuilding; Iron and Steel; Silk. Linen, etc.; Wool; Brewing and Distilling; Paper and Printing; Theatres, Hotels, Sport;—I do not know why Sport comes under Theatres—Coal; Timber and Woodworking; Corn (Imported); Public Utility; Leather, Boots and Shoes, Rubber; Oils and Fats; Stockbrokers; Cattle and Meat (Imported); Non-ferrous metals; Chemicals; Glass and Clay Products; Cutlery and Jewellery; Quarrying and Mining (except Coal); and Fisheries.

2147. Those are the total headings?—Those are the total headings.

2148. You are going to let us have that paper with those details, are you?—Well, I have not really considered giving what the Chairman was suggesting—a three years' total analysis.

2149. *Chairman*: What have you got there? Is that a one year's analysis?—This is a one year's analysis.

2150. Might we have that?—May I consider that? No other banks publish these figures.

2151. *Mr. McKenna*: I have.—You have?

2152. Last year.—(*Witness*): In your speech. (*Mr. McKenna*): Yes, I gave the whole of the advances.

2153. *Chairman*: Would it not be a great advantage if the Five Banks were to give in the aggregate the distribution of their advances? I can quite see that an individual bank may be reluctant to disclose its particular distribution, but from the point of view of the public is it not desirable to know the aggregate distribution?—I think it would be an advantage myself.

2154. If that could be done by collaboration between the banks. The figures could be sent to the Bank of England, or to some independent body, and not published for the individual bank but in the aggregate. Would that be valuable?—I think it would.

2155. You would be able to gauge the position of the banks *vis-a-vis* industry from time to time. And would not the fluctuations up and down be useful index figures?—I agree.

2156. You would be able to say from time to time "This industry seems to be getting too much into the hands of the banks"?—As far as my bank is concerned I should have no objection at all to sending up the figures year by year and to their being aggregated in the proper form.

2157. Mr. McKenna apparently has no objection. One of the things which may be of importance to us to consider is how far the banks at present can afford information which may be of value to the public; and that could be done by a suitable organisation which would not necessarily injure an individual bank?—I agree. We have been rather frightened by requests from this Committee for certain specific information, which would take a terrible lot of digging out—and give us an awful lot of trouble. But as far as this particular analysis is concerned we do it in any case every year, and I think it would be a very good thing if other banks did the same and the totals were published. One point which may be of interest to this Committee in connection with our advances is the relatively small average overdraft—£1,151. If you take Agriculture, the average overdraft in Agriculture amongst all our accounts is £840 only, and in the largest item there, the "Personal and Professional" item, it is only £561.

2158. *Mr. Brand*: What is it in iron and steel?—It is larger there; the average is £12,000.

2159. And Coal?—£10,900.

2160. *Mr. Tulloch*: Have you the Cotton Trade average there?—£15,600.

2161. *Chairman*: Is that the largest average?—No; the largest average is Banking, Insurance and Finance.

2162. *Mr. Newbold*: What does that precisely cover,—finance promotions, amalgamations, and so on?—No; concerns like investment companies have their accounts with us and merchant houses have their accounts with us,—financial merchant houses—and our banking correspondents and so on. One point which I think is worth making, is that the smallness of the average suggests that the fluctuations in the Bank Rate are not so serious to trade as is popularly supposed.

2163. *Chairman*: You might develop that a little. Give us your inference?—If you take an average of overdraft as being £1,000, or under £1,000,—in the case of Agriculture for instance,—the difference between five and six per cent. Bank Rate is only £10 per year, and that is not going to spell poverty or prosperity to a farmer. There is often a great outcry, if the Bank Rate goes up from five to six per cent., that Agriculture and Industry is being ruined, and unemployment "by order of the Bank of England" goes up according to the talk of some of the papers. Well, that difference of one per cent. between five and six per cent. in the case of the average Agricultural overdraft means £10 to the farmer at the end of the year, if the rate continues at the higher figure throughout the whole year.

2164. Then you do not think the alteration in the Bank Rate seriously affects credit in industry?—It does affect industry, of course, and the profit and loss of industry, but to nothing like the extent that I think is publicly believed and imagined.

2165. *Mr. Bevin*: Does not an increase of Bank Rate represent also a restriction of credit simultaneously with it? Is not the purpose of an increase to restrict credit?—Well, of course it makes money dearer.

2166. How do you account for the fact that with the rise in Bank Rate last year you now have a tremendous increase of unemployment, within about three months afterwards?—Well, is not that arguing *post hoc, ergo propter hoc*? I do not think it necessarily follows. I have not the statistics in my head, but I should think that some of the most active and prosperous periods of our trade were when the Bank Rate was high, when trade was so active that the Bank Rate was raised as a danger signal.

2167. But Bank Rate was high, was it not, following the War?—Yes, following the War.

2168. You had prosperity, but you also had inflation at the same time, had you not?—Yes.

2169. You had almost unlimited credit just for a temporary period?—I am not sure to which particular period you are referring, or what was the actual Bank Rate.

2170. What is sometimes called "the boom"?—(*Witness*): 1919? Do you remember what was the Bank Rate average for 1919? I am afraid I do not. (*Mr. Bevin*): Six, was it not? (*Mr. Lubbock*): It went to seven in 1920.

2171. *Mr. Keynes*: How do you conceive that the Bank Rate operates on the internal situation?—That is such a big question, it is rather alarming. How does it operate on the internal situation?

2172. Yes.—It undoubtedly has a credit-reducing effect, but the point I wanted to make just now in connection with the effect the Bank Rate is supposed to have on industry is that the evil effects of a high Bank Rate are not severe as far as the actual interest which is based on that Bank Rate is concerned when charged to a man's overdraft.

2173. *Mr. Bevin*: Have you made a calculation as to the total cost over the whole field of industry, both manufacture and transport—which all has to be borne by industry—of one per cent. on the Bank Rate per annum?—(*Witness*): No. Has anybody? (*Mr. Bevin*): We have tried to.

2174. *Mr. McKenna*: If you have got £190,000,000 loans and advances, and £40,000,000 bills—that is £230,000,000—an increase of one per cent. in the Bank Rate will approximately levy an additional charge of one per cent. on that £230,000,000?—I have also deposits on the other side.

2175. Yes, but the charge on industry, so far as your money is lent to industry, will be one per cent. on £230,000,000?—Yes, and insofar as industry may have deposit accounts with us it is getting more on its deposits.

2176. If they are the same people.—Well, they will not be the same people.

2177. Distinguishing the industry which has overdrafts from the industry which has deposit accounts the charge on the industry which has overdrafts is one per cent. of £230,000,000?—You cannot say that an industry as an industry is overdrawn or is in credit.

2178. *Mr. Keynes*: Granting that unemployment is not affected by the burden of the interest charge, how then does the Bank Rate affect the situation. (*Mr. Lubbock*): May it not have the effect of keeping foreign money here which otherwise might have gone away. (*Mr. Keynes*): That is the external situation. (*Mr. Lubbock*): If it keeps the money here there is money available for industry. (*Mr. Keynes*): Is there no effect on the internal situation?—Foreign balances held in London certainly affect the internal situation, and to the extent that a high Bank Rate encourages foreign balances to remain here, of course——

2179. *Mr. Keynes*: I meant to include that in the external situation. You do not think it has any other effect on the internal situation?—Yes; I think it limits credit.

2180. That is to say, it limits lending?—It does not limit the amount that you lend.

2181. Then what does it limit?—Of course, it does increase to that extent the amount that our customers pay for borrowing.

2182. When you say it "diminishes credit," what is the meaning of that phrase?—It makes money dearer, and I think what is made dearer is more limited to obtain.

2183. That is to say, fewer borrowers come forward?—It limits the power of obtaining it to the extent that an increased price must always do in every commodity.

2184. I am not quarrelling with the argument; I think I agree with it. We want to see what it means. That the effect of a higher Bank Rate is to prevent borrowers coming forward, and therefore it affects demand much more forcibly than the supply. It is not that people come forward and find this bank more unwilling to lend; it is that people do not come forward?—I think that is true; and when I made this particular point I did not mean to suggest, and I do not suggest, that a high Bank Rate does not do some harm to industry; but I say that the harm it does is tremendously exaggerated in the eyes of the public.

2185. It may very well be that those people who go on borrowing pay a little more, and that may be an incidental effect, but is not the real point that people are prevented from coming forward at all, and insofar as that is the case the whole volume of advances is diminished?—It certainly does prevent people coming forward, and it prevents issues of capital.

2186. If exactly the same number of borrowers came forward one need not trouble about the small extra amount they have to pay. The real effect is in diminishing the number of people who come forward?—Yes.

2187. *Chairman*: You must obviously follow Bank Rate changes closely. When Bank Rate goes up one per cent. what happens in your bank? Do you notice a diminution in the number of applications for advances?—I do not think we would notice it in the number of applications for advances. We would notice it especially in the capital issues in the market.

2188. That one can understand. The present position is unfortunate for capital issues; but do you notice there is a correspondence between the number of your applications for advances and the Bank Rate?—I have not got figures to show that.

2189. That is really what Mr. Keynes is bringing out. There are two things. The volume of credit, the amount that you lend may be affected, and the number of persons coming forward for advances may be affected. Does it not stand to reason if a commodity, money or anything else, is dearer, there will be fewer people coming forward to buy it?—That is a matter of experience; as a matter of fact, last year, when the Bank Rate was higher, our advances were higher.

2190. If a thing is essential, if bread becomes dearer, people have to buy it whether they like it or not, because it is essential to them. If a business requires money it may have to come to you even though the Bank Rate is up, but it will have to pay more for its money, and to that extent will be hampered in profit making?—Certainly.

2191. *Mr. Keynes*: Was the increase of advances you spoke of due to your customers being very busy, or because they were making losses?—On the whole I should think it was not necessarily that they were making losses, but that they were rather tied up.

2192. *Mr. Bevin*: If issues are restricted owing to the raising of the Bank Rate that makes a break, does it not, in the starting of new works and of new developments to a very large extent?—You would think it would, but, as I say, there are times of exceedingly great activity, when new works are being put up and trade seems very prosperous, and yet the Bank Rate is high, and it is very difficult to say that necessarily because the Bank Rate goes up unemployment increases or that trade is hurt.

2193. Yes, but if you restrict or stop issues? Issuing is generally for a new development, is it not?—Yes.

2194. If you postpone that, due to the raising of the Bank Rate, you postpone development?—Yes, I agree.

2195. We agree about that. So that while they may get extra advances from your bank immediately following the raising of Bank Rate, might that not be for the completion of orders, and then you find a rise in unemployment three or four months afterwards which is due to the fact that issues have been postponed and the new works that should have followed in natural sequence have been prevented from starting?—I think that is quite possible, but it is very difficult always to follow cause and effect in these advances.

2196. Would it not be right to say that the thing that is most essential is the liberal supply of credit and the stability of the Bank Rate rather than the amount of the Bank Rate?—Well, I am a little at variance with regard to that. I have never been able to convince myself that an absolutely dead level of prices is really good for trade. A certain amount of up and down I should think stimulates it.

2197. As long as you do not go beyond the economic point?—Yes.

2198. *Mr. Brand*: Do you think it is likely that a period when the advance ratio is high will coincide with a period when industry and trade do not come for advances? The present period seems to be one when advances do not circulate. They do not get paid off; and when new advances are asked for the ratios are high, because some of the advances are sticky. That is likely to be a period when industry is not making progress, and therefore does not ask for advances—I will not say does not require, but is not able to ask. (*Mr. Keynes*): When there is a high Bank Rate advances fall off because new enterprise is diminished. They increase, on the other hand, when losses are greater; people are more tied up?—Yes.

2199. *Mr. Bevin*: The two things would be bound to have an effect on unemployment?—Yes.

2200. The effect of a higher Bank Rate would be to substitute a higher rate of losses for enterprise?—I think that is what has happened lately.

2201. *Sir Thomas Allen*: When the Bank Rate increases would the £230,000,000 referred to by Mr. McKenna automatically pay an increased rate?—No. Some advances have a fixed flat rate and some have a maximum which may have been already reached. It does not necessarily affect the lot.

2202. *Chairman*: You appreciate, what we are exploring with you is how far industry is assisted or impeded by our banking system? You are very conversant with all these problems yourself. Have you found in practice that you are in any way hampered in your natural desire to assist industry by the conditions of banking that obtain at the present moment? Let me put it in a simpler way. Do you think banking is really playing its part now in the assistance of industry and unemployment?—You are referring now to the perhaps rather more general question which I mentioned in my speech?

2203. Yes. We are making a survey of the banking system, with the assistance of gentlemen like yourself, and our inquisition is directed largely to this problem. Is there anything more that can be done by our banking system and our monetary system to assist? If anything can be done you are the kind of person who can help us by suggestion, because administering it, as you do, you must every now and then come up against these problems, and sometimes find that you are hampered by the existing system and might be able to do more if you had more freedom. I want to know whether at any point you are pinched by the present system, or whether you think that banking is doing all that it can do and all that can be expected of it?—I would like to say that on general grounds there has been a certain criticism of banks, that they ought to take charge of industry much more than they do, and that it is the function of a bank, if they see any particular industry is in distress from want of reorganisation, to take the initiative in dictating to that industry that some steps of that sort ought to be taken. It certainly is my view that that is not one of the functions of our English joint stock banks. I do not think they are qualified by knowledge, in the first place; I do not think any individual bank can very well say what is the exact position of an industry as a whole, and I do not think it would be possible for the banks themselves to get together on questions of that sort and dictate to any particular industry that it must put its house in order, and cut down this item, and change the manager there, and make economies elsewhere, or really to dictate or take the initiative in a movement of that sort even though they may have a shrewd general idea that that particular industry does want reorganisation. I do not think they have got sufficient technical knowledge to say what is wrong with an industry in the first place. I do not think it would be practicable, and it might be considered a breach of confidence for one bank who knows that a particular company in that industry is in a bad way to go to a neighbouring bank and say "This company is in a bad way and would be much strengthened if it were amalgamated with a company that banks with you." You could not give away to another bank, and possibly, through that bank to a rival concern, its position. I do think, on the other hand, a great deal can be done, and is done, by individual banks in the case of individual companies, and no doubt they have given advice there to individual companies which percolates through the industry as a whole. In the case of an individual company a bank has very direct knowledge that its affairs are not good. It sees if it is making losses from one year to another, it has other indications that it is not being run as economically or as efficiently as it should be, and it is quite possible in a case of that sort for a banker to send for his customer and tell him that he is not satisfied with the condition, that he must do something to improve his finances and his actual method of procedure in his business. On the other hand, I do not think any ordinary banker has the technical knowledge to say exactly what improvement should be made in that business. He can insist, if things are obviously bad, that a reorganisation committee, for instance, should be set up; and bankers have very often sat on those reorganisation committees, and have called in outside help when desirable, and have drawn up reports dealing not only with the financial position but with the technical and management position of the company. I have direct knowledge of one or two cases; perhaps I ought not to mention names, but I can give roughly what did occur, and the part the bank played in the reorganisation of a particular company.

2204. Yes. I wish you would?—I have one here, where the bank was lending to the company and its subsidiaries over three-quarters of a million of money, and was secured in many cases by the debentures of some of these companies forming the group. It took part in an investigation into the affairs of the whole group, and the committee that sat on the position made various recommendations, which included, of course, all sorts of changes of management, cutting down of particular items in that company which were not profitable, selling them where possible, where they were not required, and made all sorts of recommendations to improve the efficiency of the concern.

2205. Did the initiative come from the bank in that particular instance?—In that particular case, no. May I just qualify that to this extent, that we had criticised the position of the company for some time and, as a result perhaps of that criticism, they asked us to help in forming this reorganisation committee.

2206. Let us discriminate a little. I do not think anyone would suggest that the ordinary management of an industrial business should be superseded by its bankers. On the other hand, the financial side of industry is very important. You supply to a very large extent the means to enable a business to be carried on. You are in a position to observe and to criticise the financial aspect, which is so important. One would not suggest that you should supersede them in the actual conduct of their affairs, but if you can criticise in the first place, and, in the second place, are in a position to give them assistance in carrying out schemes which may be devised by them, emanating from themselves as a result of your criticism, or in which they may have been assisted by calling in an expert, the question is, whether the banks then can, consistently with their policy, give financial assistance to carry out such schemes. In many instances it may mean reorganisation of capital, it may mean raising fresh capital. That is not, according to your view, the function of orthodox English banking. I am indicating to you the kind of point I have in mind?—I was going to say that ultimately, as a result of the recommendations of this Committee on which we were represented, we made considerable sacrifices, and, because we were in that position already, we did do some things which, strictly speaking, according to banking principles, we would not have done *de novo;* that is to say, we gave up our debentures and became largely, not shareholders, but to the extent of about one-half of the total indebtedness we took income notes. We gave up our debentures, our privileged position, and we took to the extent of one-half of our loan, income notes. So there was a very considerable sacrifice made by the bank in helping the reorganisation of that particular industry.

2207. *Mr. Bevin*: Would the interest on those notes be dependent upon the profits earned?—Yes.

2208. They were not a first charge?—No.

2209. *Mr. Tulloch*: Is it not a fact that it is a very important part of the duties of your responsible Managers to go into the position of their customers? If a customer has a very satisfactory business and no trouble, nothing arises, but your Managers do see the balance-sheets year by year, and I take it they consider these things from day to day, and, in fact, advise and criticise if they think that things are wrong and might be improved. They make suggestions?—Certainly.

2210. I emphasise that point, because I personally know that it is a very important part of a Manager's duties, and an industry does get very great help in that way. You agree with that?—Yes.

2211. *Mr. Brand*: I would put a question in the form of an example. In the United States, a good many years ago, the United States Steel Corporation was formed, not by the steel industry so much as by J. P. Morgan and Co. They acted as a sort of nucleus; the scheme would never have gone through without their assistance and initiative. Do you think there ought to be institutions in the City of London who are prepared to adopt that sort of attitude of helpfulness towards industry, and do you think those institutions could be the Big Five?—No, I do not think the Big Five would be suitable for that purpose.

2212. Do you think there ought to be that sort of connection between industry and finance which exists in some other countries, and perhaps does not exist in ours?—I did say in my remarks at our Shareholders' Meeting that I did think the company which had been started under the auspices of the Bank of England—the Securities Management Trust—might have very useful functions in the way of advising industry as a whole.

2213. Do you not think it shows that there has been a lack of some organisation in London if the Central Bank of Issue has to start this company?—Yes, I suppose that is a fair inference. We have not had these conditions before.

2214. *Chairman*: Exactly. And what we want to do, if possible, is to create the necessary means of dealing with the situation that confronts us now?—I was pointing out how I thought individual banks could help the situation by dealing with individual concerns, and I was giving you some examples where my bank has helped in the reorganisation of a particular concern, or group of concerns. I do not think we could take a useful part in trying to tackle an industry as a whole.

2215. By an organisation such as Mr. Brand has referred to?—(*Witness*): Mr. Brand's example was the United States Steel Corporation. That was an individual concern; it was not the steel industry as a whole. (*Mr. Brand*): It was an amalgamation. (*Mr. Bevin*): It was not a monopoly. (*Mr. Brand*): No, I do not suggest a monopoly.

2216. *Mr. Keynes*: Whose business is it, in your opinion?—I certainly think, in the first instance, it is the business of the industry itself.

2217. The assumption is that the industry itself has neglected matters?—But it is becoming rather alive to the fact, is it not?

2218. *Mr. Frater Taylor*: Is it not the fact that a rather wider conception is necessary on the part of the banks to-day as regards industry? Having regard to the state of British heavy industries, engineering for instance—should not the banks give more consideration to the industrial situation with a view to co-operating in their own interests and with a view to the restoration of prosperity to those industries? Some one has to take the initiative. The industries are hard up; they have to raise money?—The first move is not to raise money; the first move is to get a reorganisation scheme and, having got a reorganisation scheme which has been thrashed out by capable people who have the requisite capacity and knowledge in that respect, I think they could then go to the banks with every prospect of receiving assistance from them.

2219. My question was, are the banks really giving consideration to the exceptional industrial situation with which we are confronted to-day?—Yes, I think they certainly are.

2220. What form has that consideration taken?—I have been giving you one particular case where my bank dealt with the reorganisation of a group of companies which were in difficulties. I do not think that my bank could usefully take the initiative of trying to reorganise the whole of that industry.

2221. But is there not a call in the particular situation for the banks really to get together? I assume, for instance, that your particular bank must be interested in the heavy industries such as shipbuilding and iron and steel; I take it you have advances on loan and possibly investments in those industries. It is those particular industries that are hard hit, and they have shown that to a great extent they have not been able to put their own house in order. I quite agree with you that a scheme for proper reorganisation might be developed, but finance must march hand in hand with it?—I think finance would follow, if I may say so; I think you want to get your scheme first. It may require some sacrifice on the part of the banks in order to get that scheme through. In the case I have mentioned I pointed out that our bank was prepared for the sake of the scheme to make a sacrifice and to descend from one category, so far as the safety of loans was concerned, to a much lower one, and also was prepared to assist in obtaining fresh capital for that reorganised concern.

2222. Can you say to what extent, within the last two or three years, your loans have become investments in effect, or are likely to become investments, in these industries?—The extent to which we have become investors in it is very limited.

2223. *Mr. Newbold*: Have you not become *de facto* investors by reason of your loans becoming such that they cannot be repaid?—Well, no; not investors quite, but to the extent that we may have a debenture on the concern we have control and prospective ownership.

2224. Frequently your name, "Lloyds Bank" appears in the stock lists of steel companies that one could name, but perhaps ought not to do so, and sometimes one has the impression, by reason of their frequency, that perhaps it is not merely a case of a nominee, but that you actually hold investments there as cover for loans which you have advanced?—Practically we have no actual shareholding in any of those concerns.

2225. You do not hold shares there as security for advances made?—Of course, we may have shares lodged as security for a personal loan but not for the company itself.

2226. *Mr. Frater Taylor*: But are you not shareholders in effect? If you have frozen loans they must in reality become in the nature of an investment?—Well, that is hardly the proper term. We are a creditor, not a shareholder.

2227. You are a creditor, something more than is usual in the situation?—Some loans are sticky, no doubt.

2228. Have you many loans that are tied up in the heavy industries just now?—We have not a great many.

2229. Have you any substantial loans?—In shipping and shipbuilding the percentage of our total advances is only 2.49.

2230. Yes, but that may mean half a million pounds to a particular industry?—2.49 is the total percentage in that industry.

2231. Does the 2 per cent. include what I call frozen loans?—It would include, in the iron and steel industry a very small proportion of what you would call frozen.

2232. To the extent that you have something that is frozen, would it not have paid the banks to have exercised in effect partnership rights at an early stage?—A bank always stands to be shot at. In 1919, after the War, when America was more or less out of the picture, looking after herself, Russia was off the map, German competition was eliminated very largely, everybody thought that the trade of the world was at our feet and there was a lot of very wild company promotion and bad finance in consequence. That was the psychology at the moment, and supposing the banks had at that time refused to give advances to any particular industry, they would have been howled at much worse than they were subsequently.

2233. At what stage would you feel it incumbent upon you to demand an investigation?—I do not know whether it would help the Committee if I gave some instances of a balance-sheet.

2234. *Sir Walter Raine*: Could we not have the finish of the other case? It was very interesting. (*Chairman*): Had you finished your story of the case where you came to the assistance of a particular group? I think you might complete that.—I had got to the point where I said that in order to co-operate and help the scheme on the bank did agree to make certain sacrifices in its position. As a matter of fact, the reorganisation scheme turned out to be a success. The Committee have been able to get a particularly good new manager, who dealt very wisely, I think, with the business, and improved its position very greatly, and the internal reorganisation of that company was followed subsequently by a further step in rationalisation, by amalgamation with another big company involving very considerable economies between the two in that amalgamation. I am at the present moment engaged in suggesting tentatively another scheme which I think might be of benefit to those concerned.

2235. *Chairman*: Will these income notes be paid off from time to time, and your intervention, so to speak, diminished?—Yes, our hope is that those income notes will, as time goes on and the company prospers, be repaid.

2236. So you have intervened and given assistance, and what you hope is that the business will be re-established in a prosperous condition and normal banking facilities restored.—Yes. Of course we are still giving them ordinary banking facilities from day to day.

2237. Exactly. But the abnormal banking facilities which you have been giving them you hope will be transitory?—Yes.

2238. *Mr. Lubbock*: I suppose the fact is that unless a company is making profits, or can show a prospect of making profits, it is very difficult for it to get money from its bankers or anyone else?—Well, of course, bankers have to be sympathetic with their old friends when they are in bad times, and making losses; you cannot come down on them the very first time they make losses.

2239. No, but if they are continually making losses, and the banker goes on lending, the banker's loan eventually becomes frozen, and it becomes a bad debt?—Yes.

2240. So the whole thing depends on whether the industry becomes profitable?—Yes.

2241. *Mr. Frater Taylor*: It is, I take it, the circumstances of the individual situation which prompt you to call a halt?—Very largely.

2242. And possibly demand an investigation which might lead to reconstruction?—Yes, that is the thing of which we have most knowledge.

2243. *Chairman*: Have you any other illustration?—I have one here of a large concern which was employing thousands of men and which we were very anxious, not only on that account but on others, not to stop but to continue to give financial help. It meant finding wages and so on from week to week. That also was the object of a special investigation.

2244. May I interpose a question? What sort of staff have you got at your bank which is able to advise you on questions of that sort? Have you got any experts in your service who act as special advisers on such questions?—No, you would have to have an expert in each trade, would you not?

2245. Do you employ someone in the trade?—It was a company which banked with us, and with which we were in close contact and had seen frequently because of their requirements for finance and overdrafts. Of course, all those sorts of points are discussed with them by the General Manager or the Controller, who receives the representative of the company, or in some cases by myself or the Deputy Chairman—usually by one of the Executive. In that particular case we agreed to accept in place of our debt, which was covered by the debentures, half in income debenture stock, and half in preference shares. There we did become actual shareholders in the concern to that extent, resulting from the reorganisation. It was a considerable sacrifice of our position, of course, which we made in the interests of the scheme, which we agreed was advisable for the restoration of prosperity to that particular concern. I have two or three more of the same kind, and very much on the same lines.

2246. Do you regard these activities as an infringement of the pure theory of banking which has been forced upon you by the exigencies of the moment?—Certainly in the last case we would never have taken a large holding of preference shares *de novo* as a new transaction.

2247. Do you think this class of activity should be increasingly undertaken by banks or would you rather see it undertaken by some other form of organisation, and revert, so far as you are concerned, to your pure theory?—So far as pure banking is concerned, I consider that if we had not had large reserves, and been in a strong position, it would have made things very difficult.

2248. By that do you mean it is a departure from what has hitherto been regarded as the pure theory of banking? May it not be a quite advantageous development of banking theory?—It was a position which was more or less forced upon us under the reorganisation scheme.

2249. A problem is often forced upon people. May it not be that developments of that sort may be appropriate to a bank? I am merely asking you whether an activity of that kind may not be increasingly necessary, or do you think it is so exceptional that you ought not to undertake it, but that it ought to be relegated to other bodies such as that which the Bank of England has set up? Would you relieve yourselves of that activity which has been forced upon you?—My own view is that it is not our function to undertake that.

2250. You are doing it. You are not only doing it, but you are evidently doing it to the advantage of those industries?—But only in a reorganisation scheme and because we had already lent money to this concern which was going through bad times. In order to help the reorganisation scheme we in that particular case agreed to accept a worse position than we were in before by taking up preference shares instead of debentures.

2251. What strikes one is that in those cases the intervention of the bank has been very advantageous. Is not that a useful activity which might be undertaken on a larger scale?—On general banking principles I think it is wrong that we should have 100,000 preference shares in a commercial concern, which 100,000 preference shares have very little value at the present time.

2252. *Mr. Brand*: Would you regard it as appropriate to tie up your depositors' money in ordinary industrial preference shares?—No, I should think it was a very bad thing.

2253. *Mr. McKenna*: I take it that those shares do not stand in your books at par. You have had to write them down?—Exactly.

2254. And you have only been able to undertake this transaction by making use of your reserves?—Yes.

2255. *Chairman*: On the other hand, what has happened has obviously been very much to the benefit of the industry. Whoever has done it, it happens to have been a very salutary step. It is manifestly desirable that that salutary step should be taken very widely throughout the country, at the present time, is it not? There must be many undertakings which would be very much better for a similar salutary course?—I think bankers have to share the burden in some of these reorganisation schemes.

2256. But if it is desirable that the salutary course should be pursued in other industries, and it is not the bankers' province to undertake it, is it not desirable that some means or machinery should be provided whereby that class of operation can be undertaken? If it is not the bankers' province it ought to be somebody's province to produce this desirable result.—I think we are confusing two things. I think it is desirable that some machinery should be set up to investigate an industry which obviously requires some reorganisation, and if fresh finance is desired after that investigation has been made and a report by the ablest people obtainable is published, then there may be a time when you can go legitimately to the public and have a debenture interest or fresh issue, but in this particular case I have mentioned you could not go with any sort of right to the public and issue preference shares out of which we could have been paid off.

2257. I follow that, but is there not a gap in the present system between the banker who provides the ordinary credit facilities for his customers and the public who are willing to subscribe to issues which are sufficiently attractive and remunerative? Is not there a gap between those two sources of finance, where an industry may want to get money to re-establish itself. It is not the bankers' business to get money for it and commit the assets of his bank in any permanent form; on the other hand, an issue to the public would have no prospect of success because of the depressed state of the industry and the absence of an immediate prospect of profit. Is there no room for a class of assistance which would help?—Yes, I think there is.

2258. Have you ever considered the possibility of assisting that type of case?—I do not know the actual plans designed for the Securities Management Trust, but that seems to me to be formed on the right lines, and with the right sort of idea.

2259. Then it should be done not by the banks, from your point of view, but by other bodies?—No, I want to be quite clear on that. I do not think the banks should do it. Mr. Brand will know of a case where a big financial house has recently taken part in a big reorganisation scheme and has already very largely financed that particular concern. There are similar bodies in the City of London, who have not, perhaps, specialised in that sort of work, but who might do so more. It is conceivable you might set up a new company *ad hoc*. Perhaps you had in mind such a thing as the Steel Bank that was suggested; something on the lines of the Agricultural Mortgage Corporation. That suggestion was considered, I believe, by the banks. I was unfortunately laid up at the time and I do not know the details. It seems to me that that would not be a very suitable or easy method.

2260. *Mr. Tulloch*: Your point rather is, is it not, that when an industry is going towards the rocks it should be for the members of that industry themselves to get together and formulate schemes? That would be the primary idea, would it not?—That is what I should have thought would have been the natural first step.

2261. *Mr. Bevin*: But in view of the fact that industry is not the property of the proprietors, in that sense, that it is a national matter, that the people's livelihood depends upon it, is it right that the people who will not put up a scheme should be allowed to drift on and drift on for two, three or four years before anybody will step in in the national interest and cause an investigation and pull it up in its disastrous progress?—It is very difficult to say at what point you ought to step in. Perhaps in the light of past experience it would have been wiser if the bankers had refused to make loans in 1919.

2262. I agree, particularly in cotton, I should think?—But I do not think anybody in 1919 would have said that if the bankers had refused to make loans at that time——

2263. Who would have objected, do you think? Take cotton—all those millions of people earning their living in Lancashire—do you think they would have objected?—As I was saying just now, in 1919 many people thought that the trade of the world was at our feet.

2264. *Mr. Newbold*: Did experienced bankers like yourself really honestly think that?—Did we think it?

2265. Yes?—The point I am trying to make is this: It is easy to say now that it would have been better to have refused all advances to those concerns in 1919; but it was not possible at that time to foresee exactly what the conditions were going to be, and if bankers had refused to give any advances to the cotton trade, for example, in 1919 there would have been a very great outcry.

2266. Yes, but there is a difference between giving none and giving such a lot. There is a feeling abroad in the country that the inside borrowers in industry in 1918-19 were not by any means amateurs, but were experienced in these things; they saw the slump coming and transferred their ownership to people who were not so well informed, and when the slump came the industry had changed hands, the original proprietors were no longer in charge. Meanwhile bank overdrafts and debentures were created and then these people waited until the slump was over and came back again and quietly occupied their old properties. That is the feeling abroad in the country. I am not saying whether it is right or wrong?—Is that any particular industry?

2267. Cotton, shipping?—The cotton industry I cannot speak about.

2268. I say that is the feeling abroad in the industry. I do not say it is justified, but it is there?—I do not think the original holders have come back to cotton, have they?

2269. *Professor Gregory*: I should like to go back to the question of reorganisation and refinancing of industry. I will not question your judgment on the point that you cannot initiate discussion, but you are, in certain circumstances, prepared to assist in the reorganisation of particular firms. Let us suppose it is necessary, as it is in the iron and steel industry, for amalgamations to come about involving four or five banks. Are you prepared to agree, at any rate, with this proposition, that although the initiative cannot be taken by the banks, although the plans may have to be worked out by some such body as that which has been set up by the Bank of England, it may be possible for the banks to assist industry as a whole by granting credit for a rather longer period until the public gets back its confidence in the industry? Do you think the banks would agree to that?—I think they might have to make some sacrifice in their present position, but I do not think it would be right for the banks to find anything in the nature of permanent capital.

2270. Well, capital pending public issue?—It would be a question of the length of time, to my mind. In one of these cases we did agree to make a large advance pending the issue. The issue, it was anticipated, would come out in three months; the time has not arrived yet, and it may take longer, but I should not think it would be a proper banking advance to make if it were over a period of a year.

2271. You would agree that the public has lost so considerably over the leading iron and steel shares that it might be exceedingly difficult, if the operation were managed by a large syndicate, to convince the ordinary investor that the thing was safe; in other words, there might be considerable difficulty in raising capital? Are you suggesting that this might not be part of the duty of banks, but that action ought to devolve on some particular institution?—It would be very difficult for me to say that an issue which was not sufficiently attractive and not sufficiently safe for the public to put its money into, was one that we ought to put the public's money into ourselves.

2272. I accept that, if you think from a long-run point of view there is no chance of recovery. I agree. I go on to ask you this: Supposing it were suggested that the joint stock banks should increase their capital by direct issues to the public, and should set up, or help to set up, some corporation which would issue long term loans, would you accept that?—On the lines of the Agricultural Bank?

2273. Yes.—The difficulty there is, that you are dealing with such a different type of property. In the Agricultural Bank you had a definite asset; the bank agreed to put up money for the Agricultural Bank and then the Agricultural Bank, on the strength of that capital, made issues to the public for loans to be made on land. I think they have already made loans to the extent of £4,000,000 or £5,000,000 on land for that purpose, for the benefit of the farmers. But if you were to try and set up an organisation of a similar kind and make issues to the public based on security of industrial debentures, you have not anything like such an attractive security; in the case of a colliery, if it does not do well, you have nothing but the hole in the ground.

2274. Are you not making it very difficult to suggest anything?—It *is* difficult.

2275. I am trying to compromise between the view that the banks ought to do nothing and the view that the banks should undertake the whole thing. Do you think, in view of the confidence which the public rightly have in the joint stock banks, the banks should come in to the extent of supporting an organisation financially?—I think if you can make out a sufficiently good case, and the reorganisation scheme is financially sound and the prospects reasonably good, you ought to get money subscribed from the public.

2276. The public seems a little off these issues, does it not?—It is, but the *reductio ad absurdum* there is the suggestion that somebody has got to find this money, even if it is a bad risk.

2277. My suggestion is that the people who can see a little further than the investing public should be prepared to give the investing public the lead, and one of those possible bodies is the banks. (*Mr. Brand*): On the other hand, you would say it is a difficult operation. This is an institution which has got to do something on a large scale which neither the banks nor the public will do. It has got to be an extraordinarily strong institution, extraordinarily well run?—I quite agree; and it would be exceedingly difficult.

2278. *Mr. Newbold*: During a national emergency, for the purpose of stimulating the export trade the British Trade Corporation was formed. Would it be possible to have an English Industrial Corporation?—I am afraid the history of that Corporation has not been very satisfactory.

2279. You only undertook that because it was a grave national emergency. We are in a grave national emergency again.—It was supposed at the time to have very considerable prospects, but it became more or less of a failure.

2280. You think it was a complete failure, do you?—It certainly had to go through reorganisation.

2281. Do you not think it helped British industry considerably over its difficulties? You think not?—(*Witness*): No. (*Mr. Lee*): It did not help a bit.

2282. *Chairman*: Suppose, Mr. Pease, that we were to change places, and you were contemplating making a report here, would you hand in a blank sheet of paper and say nothing could be done?—I have been trying to point out that something is being done by individual banks.

2283. Is it your recommendation that the banks should be encouraged to do more of that sort of thing, and that we should suggest to the banks that in this emergency, in the changed circumstances with which we are faced now, they ought to have a more advanced policy? The examples which have been put before us are examples of what a bank can do nowadays, and ought to do. (*Mr. Tulloch*): And is doing. (*Mr. McKenna*): Might not your report be, that you would suggest such reforms as would render the present emergency a passing event only, and that the circumstances which caused this reorganisation would never arise again?—Of course, these reorganisations take time; you cannot get any scheme which is going to put them right in a moment. One hopes it is a passing emergency.

2284. *Mr. Frater Taylor*: Are the banks improving matters by dealing with individual reorganisations? For instance, I would say it was dangerous to deal with one steelworks only without taking cognisance of the industry as a whole. (*Mr. McKenna*): May I suggest these are symptoms of a disease which ought not to occur?—I suppose we are suffering indirectly from the results of the War. One devoutly hopes that nothing of the kind will arise again.

2285. *Mr. Bevin*: Going back to when this depression started, did you, as a banker, anticipate that this depression would last for such a long period?—No.

2286. Was there any consideration of post-War problems by the banks, or by financial people collectively in the City, as to the likely result of this serious depression?—There was no formal conference.

2287. At present we are under a system of private enterprise, we are asked to leave industry's well-being to private enterprise, and you say that notwithstanding the post-War difficulties there was no formal consultation by private enterprise looking at industry as a whole and considering the possible effect or length of the depression?—What conferences might have gone on between the different branches of any particular industry, I do not know.

2288. But as banks you did nothing?—As banks jointly we did not.

2289. *Mr. Newbold*: Lloyds Bank, I think, was always actively to the fore in helping the Federation of British Industries, was it not?—Yes.

2290. You always seemed to take a more active lead than any other bank?—The Chairman of Lloyds Bank at that time, I think, was the first President of the Federation, and we subscribed to it.

2291. Therefore one expects more from Lloyds Bank than any other?—We maintain you get it.

2292. *Mr. Keynes*: Could you tell us roughly what proportion of your reserve money consists of bank notes and what proportion of deposits with the Bank of England?—I should not have any objection to giving those in an aggregate form.

2293. You mean in an aggregate form for the banks?—In an aggregate form for the banks.

2294. But you would object to giving it separately?—Yes, I do not think I should be asked to do that as a separate institution. As a matter of fact, I have not got it to give you; it is not in my mind.

2295. What makes you decide how much to keep in one and how much in the other?—That is largely a matter of experience. Some branches require a bigger reserve in the till.

2296. And how do you decide how much reserve of cash there is to be and how much at the Bank of England?—The reserve of cash is more or less a stable and fixed sum.

2297. Why do you keep any cash reserve? You can always get it from the Bank of England at a few moments' notice, can you not?—Well, there is no advantage in keeping it at the Bank of England; you have only to send over for it; it is much quicker to have it in your own safe.

2298. If you altered your habits in that respect it would alter the significance of the fiduciary issue?—We do not keep any gold.

2299. Supposing you had £5,000,000 of notes in your Head Office which was not required as till money, if you sent that into the Bank of England and increased your deposits by an equal amount it would increase the reserve of the Bank of England by £5,000,000?—Yes.

2300. Have you ever considered whether you should send any in, or keep it out?—I have not gone into that question recently. The amount that we do keep in notes has been the result of experience over a great many years as to what is likely to be required.

2301. You say it never is required, it remains there from one year to another?—Well, if it is taken out it is replenished again at once. That is what I meant.

2302. In the United States the banks are not allowed to count their till money as part of their reserve, in order to concentrate the whole situation in the hands of the Central Bank?—You must have a sufficient amount in your till to pay any likely requirement, or even unlikely requirement; you must have a margin of safety, because you cannot possibly say to a man who wants a certain amount of cash, "I have not got it; you must wait till I go to the Bank of England and get it."

2303. Yes, of course, but any excess beyond that till money?—Well, you are not dealing only with the head office which is 100 yards off the Bank of England, you are dealing with branches in the country.

2304. What I am trying to get at is whether the amount of notes you hold is due to tradition and convention or whether it is a necessary amount which you could not alter to any considerable extent?—I should not like to answer that categorically. It is possible we have an undue margin of safety, but I should not think very much.

2305. *Mr. McKenna*: Do you not increase the deflationary powers of the Bank of England by paying in notes?—Of course, it would be simpler in many ways, and I daresay it might be more profitable to the banks, to do as they do in America and have recourse to the Reserve Bank immediately they were short of money, and rediscount. London joint stock banks never do rediscount.

2306. *Mr. Keynes*: Lloyds Bank have been on the whole, I think, pioneers in the publishing of full balance-sheets. Would you have any objection to making it fuller still, setting out your holding of cash and Bank of England deposits separately, and your fixed deposits and current accounts separately? I think the other separations you have already made in your balance-sheet?—We have. I should not have any objection to sending in those figures in aggregate form.

2307. *Chairman*: In aggregate form, but not in your individual balance-sheet?—No.

2308. *Mr. Keynes*: What is the objection?—Well, people sometimes draw wrong inferences.

2309. May they not draw more wrong inferences if you give no information?—I am expressing my own personal opinion; I do not really think there would be objection to doing that, dividing your cash in that way.

2310. *Chairman*: And if all the others did it, do you think it would afford information that would be of value?—I am doubtful as to the extent of any value there would be in that division.

2311. *Mr. Lubbock*: In those industries where reorganisation took place under your influence and advice, presumably, it is to be hoped they are now in a position to earn profits, or at any rate to anticipate earning profits. You hope so?—Not in all cases. One of them is still in a doubtful position.

2312. Take the other one; that is in a position to earn profits?—Yes.

2313. In consequence of reorganisation?—Yes.

2314. And the difficulties in that industry were not, therefore, due to any defects in our monetary system?—No.

2315. But to its own delay in reorganising itself?—And one factor, which was a very unfair one I think, was that it had been practically compelled by the Government to spend very large sums of money during the War on plant which ultimately became useless, for which it got little or no compensation. That was one of its troubles.

2316. *Professor Gregory*: When you were discussing the effect of a rise in the Bank Rate, you said that one of the good effects, or possible good effects, of a rise in the Bank Rate was a retention, or even an increase in the volume, of foreign balances. When you get these foreign balances, do you merge them in the general deposits of the bank and distribute them between the investments in the various proportions? Do you find yourselves obliged, either by convention or principle, to employ them in the short-loan market?—They are generally used in the bill discount market.

2317. *Chairman*: We are very much obliged to you for coming this afternoon?—I wish I had been able to tell you exactly what you wanted for your report. (*Chairman*): Your evidence has been most helpful.

(*The Witness withdrew.*)

(*Adjourned till to-morrow* (*Friday*), 14*th February*, 1930, *at* 4.30 *p.m.*)

THIRTEENTH DAY.

Friday, 14th February, 1930.

Present:

The Rt. Hon. LORD MACMILLAN, *Chairman.*

The Rt. Hon. LORD BRADBURY, G.C.B.
The Hon. R. H. BRAND, C.M.G.
Professor T. E. GREGORY, D.Sc.
Mr. J. M. KEYNES, C.B.
Mr. LENNOX B. LEE.
Mr. CECIL LUBBOCK.
The Rt. Hon. REGINALD McKENNA.
Mr. J. T. WALTON NEWBOLD.
Sir WALTER RAINE.
Mr. J. FRATER TAYLOR.
Mr. A. A. G. TULLOCH.

Mr. G. ISMAY, *Secretary.*

Mr. John Rae, Director and Chief General Manager, Westminster Bank Limited, called and examined.

2318. *Chairman*: As you know, we have been taking evidence from the Big Five, as you are generally called, on the topics of our reference, and the aspect of the inquiry which specially relates, I think, to the banks, is the provision of credit for industrial purposes. We regard you as the distributors of credit.—Yes.

2319. And the type of question which we have been investigating with those who have preceded you has largely been the question of the banks' action in the national crisis at the present moment; how far they are able, with their existing organisation, to help, and how far they should help. That is the class of question to which I think this afternoon we might usefully devote some time. First of all, I think you might describe your organisation and method of working. Your bank, like the others, is the product of a series of amalgamations, is it not?—Yes; I think about 60 altogether. There are three main banks; the County had a few, the Westminster had a few, and I think Parr's Bank, which was the country section of the bank, in 1918, had had about 40 in the course of its history.

2320. As respects the information regarding your activities which you give to the public, you publish, of course, your annual Balance Sheet, and you have an annual statement by your Chairman. There is no uniformity, we find, among the Balance Sheets of the Big Five as to the degree to which they analyse their figures.—That is true. Perhaps we give rather less than one or two of the others.

2321. Have you any view as to the desirability of giving further statistical information?—Yes. I think that what the Westminster provides is adequate for the shareholder, who has first to be considered, certainly adequate for the public, and to go further would not, I think, provide any very suitable data for statisticians or for those who are carrying out a general inquiry.

2322. *Mr. Keynes*: Would you accept the opinion of economists as to whether it is useful?—Well, if the economists could show what use they could make of my declaration of what I hold in Treasury Bills as compared with other bills. . . . We do not distinguish between them in the Balance Sheet or in the Chairman's speech.

2323. If that were useful information would the disclosure do any harm to the bank?—I think it would be misleading.

2324. In what way would it mislead anybody?—I have known them mislead eminent bankers.

2325. In what way?—In this way: Supposing you are Chairman of a big bank; you get statements analysed every week showing what you have in Treasury Bills, what you have in first-class bills, and what you have in ordinary discounts, and you compare them month by month. Without further inquiry you would say the trade of the country is going down because you are holding more Treasury Bills and less of the other bills. The true explanation would be—if I am the Manager of the bank dealing with that section—that I buy my requirements of Treasury Bills in the market, and I may buy them a little bit cheaper, because of the competition set up by the Central Banks in Europe to buy bills acceptable at the Bank of England, which the Treasury Bill is not.

2326. *Professor Gregory*: Surely that is a very important economic factor?—It is. But if I put my holding of Treasury Bills in, it leads the average person into thinking that the trade of the country is going down.

2327. *Mr. Keynes*: But the average person is hardly a student of banking statistics. I am thinking not of figures for an isolated bank, but for the banks as a whole?—There is no objection to giving it, but I should think, generally speaking, the declaration once a year that the banks do hold so many Treasury Bills is fairly accidental and not typical.

2328. Some explanation, even though it may risk being a foolish explanation, may be better than no explanation at all?—My point is, from the banking aspect, what advantage is it to the general public to know that we hold £30,000,000 or £40,000,000 of Treasury Bills and perhaps a much less amount of commercial bills, if next year our commercial bills are very much higher and the Treasury Bills are very much lower?

2329. If this were part of a general disclosure, so that we knew the figures of all the banks, and we also knew the fluctuations in bills held on foreign account, and so forth, it would be one element in forming a truer picture of the whole of the money market situation?—I do not object to the information being given at all, but I think, generally speaking, from what one reads in the papers, there is so much misapprehension about these things; people deduce from the evidence produced at inquiries that trade is increasing or diminishing, and very often it is quite the reverse.

2330. Is not that a result of the secrecy that has prevailed in the past, that we have been given so little information by the banks that it is very hard to make deductions? If you gave fuller information should we not be able to build up a better public opinion?—No, I do not think so. When you come to bills you have a much better illustration—the use of the bill is declining.

2331. Is not that a very important thing to show, over a period of years?—If you were to build up sufficient statistics I think it would take a very long time to do.

2332. *Professor Gregory*: Take another aspect, the example you have selected. If it is shown by the volume of trade bills that the total earnings of the joint stock banks are falling off because of the competition of the foreign Central Banks it really means that a certain proportion of British trade is financed by Central Banks abroad?—It may not be entirely British trade. These bills come from all parts of the world.

2333. *Mr. McKenna*: May it also be that whereas Central Banks can only buy commercial bills, other foreign banks can buy other bills?—That is true. You could not make a proper deduction from data of that sort.

2334. *Mr. Keynes*: There are two separate attitudes. We may take the attitude: All this is a holy mystery; the less we say about it the better; and the public will only draw false conclusions from any information you give? Or you may take the view that the whole situation requires that the figures, not of an individual bank but the aggregate figures, should be made available, as they are in the United States?—There is the case of quite an eminent banker being misled by the figures produced.

2335. That must have been because he was not familiar with it?—I will not say that, but if a man who should be familiar, and is in a position to make himself *au fait*, makes that mistake, surely the average member of the public can gather nothing from the declaration of the amount of Treasury Bills and the amount of other bills.

2336. *Professor Gregory*: Supposing one were to get from the accepting houses and bill brokers their holdings at any particular time of trade acceptances outstanding, then one could check the decline of British banks' holdings of trade acceptances by the inference that they are probably held abroad?—Could you make such a calculation in a reasonable time? These things change every day.

2337. I did not imply that this was to be done day by day; I was arguing whether it is not possible to check false inferences by more statistics rather than less?—I have no means of checking what is in the market, I have no means of knowing what the foreign banks are buying, but in one case I remember my Treasury Bills were very high and the "two-name" bills very short of my usual proportion. The disclosure of that might have had a great influence in leading the public to think that the trade we usually concerned ourselves with was going down. As I say, that was not the case at all. The commercial bills were being bought by Central Banks on less favourable terms than we could buy Treasury Bills.

2338. I am not disputing your action; I am only asking, if one has more information, if one can correlate the information which you provide with the information which the discount market can provide, whether false inferences could not be reduced and yet useful information be supplied?—I have not the least doubt that my bank, and I should think every big bank, would be prepared to give this information for a general pooling.

2339. *Chairman*: Is your objection to giving these further particulars founded upon the disclosure of the affairs of your own bank, and would that objection be met if the figures were published in the aggregate for the banks without discriminating between the individual banks?—My point is, that I do not think if you got all that information it would go towards the enlightenment of the public. But I have no objection at all. The pooling of information I should think might be useful to all the banks; there is no objection to stating what are commercial bills, what are Treasury Bills.

2340. *Mr. Keynes*: Your point is not that the information would do you any harm, but that it would do us harm. (*Chairman*): It might not, perhaps, be in the public interest to satisfy Mr. Keynes and Professor Gregory with further statistics! We are considering what steps can be taken with a view to assisting industry and employment. Do you think that the publication of those further figures would assist industry or employment?—Not in the least degree.

2341. *Chairman*: The only way in which they might assist would be that if you had more accurate information as to the monetary system of this country and its past working, you might be able to diagnose better some of the deeper causes that are at work in producing economic difficulties. That is the point that Mr. Keynes wants to bring out—whether you could get a diagnosis of the monetary system, the pathology of the monetary system.—If that is the view of the Committee I am quite sure that the Big Five would co-operate in pooling the information, but I think for balance sheet purposes it is ineffective. I do not think it has any great value.

2342. One would never suggest that information should be given merely to satisfy idle curiosity, but, as you know, there is a certain feeling of uneasiness in the country that under the changing conditions of our day the monetary system is not adequately adapted, or that, at any rate, it may be susceptible of improvement.—Yes.

2343. Of course, when you begin to make suggestions for the better balance of the system you do require to have a very great deal of information about it?—Under the bill discounting situation you have three main lines; you have the Treasury Bill; what I call the gilt-edged bill; and the ordinary trade bill. Now, it is in the third category that you can measure the internal trade of the country, because the first two lines are mostly used, next to your loose cash, to provide against an emergency. You are not doing much for the trade of the country by going into the market and buying something to yield you 3½ per cent. or 4 per cent. until you require the money for other purposes. You are not directly financing trade to that extent. The first two lines do not indicate the internal trade of the country very much, but they indicate that your bank is in process of making itself liquid.

2344. Let me put to you one form of discrimination which has been discussed—the ratio between your fixed deposits and your current accounts. That does reflect, does it not, the industrial position?—It has done, but I do not think the industrial position is exactly reflected thereby.

2345. Shall we say the movements are "associated"?—Take a period of high prices, when the wholesale man pays a lot more for his goods and the retail man pays the wholesaler a lot more. The cheques passing to and fro must inevitably be bigger counters for the same quantity of goods. Following the War there was a time when people were so pushed that they did not concern themselves with that, but when you get duller times, and you get the spirit of economy preached all over the country, you find people keener as regards interest. It is very largely a reflection of the operations of Savings Committees all over the country.

2346. It is a gauge of value?—It is a gauge of some value, no doubt.

2347. I put that to you merely as an example of the form of information which it seems to me might be given without injuring the condition of your business.—That is not quite analogous to the position of the bills. You go into the bill market and buy bills with surplus money. When you discount or advance money you are dealing with the trade of the country.

2348. Another thing which is very interesting, and which some of the banks do, is to analyse their advances in order to show the different types of industry which they are assisting, and the relative proportions. I think the Midland Bank has done that in one or two cases recently, and it has been done by Lloyds Bank also.—Yes.

2349. Do you think that is a valuable analysis to make?—No, not very. I think it is detrimental to the bank under certain conditions, and it is accidental to a particular bank; because if you track the Big Five down to the basis on which they have had amalgamation, it is a matter of accident. Take the Midland Bank. I think in 1918 Sir Edward Holden, who was then the Managing Director, said that they had pursued a big industrial policy, that they had advanced more than any other bank to industry, and so forth. I have no doubt that was quite true. But that was largely in the Manchester and Birmingham districts. Another bank may have developed in a slightly different way; they may have said, "We require more deposits. We will look around for a bank that is rather well supplied with deposits." The conjunction financially of those banks, if well thought out, might bring together ratios of a totally different character. If one bank says "We have gone in for agriculture," and another bank says "We have gone in for textiles," I have no fault to find with that; it may be accidental to them; but if I am putting out a balance sheet to my shareholders I do not want to say to my shareholders, in an agricultural depression, or any other kind of depression, "Gentlemen, you will be pleased to know we have the greatest share of anybody in England in this particular industry."

2350. I am not thinking of the shareholders so much, but if you had from year to year the aggregate figures of advances to different industries, and the shifting ratios, it might be some indication of the extent to which these heavy and big industries are finding it necessary to have financial support?—I think that is a detriment. I have every wish to co-operate with the other banks in helping if one can, but I think it is rather a detriment to go forward and give an analysis of your lendings and say to people "We have got 12 per cent. of our money out to agriculture". It may be perfectly good, on the other hand it may be perfectly bad, and you may get a certain section of people who say "We are not going to have dealings with a bank which does this sort of thing".

2351. Suppose something has gone rather awry in an industry. Probably more than one bank has been involved in assisting that industry; would it not be valuable for the banks as a whole to know the extent to which that industry was getting into the hands of the banks? I am thinking of cotton, for example. You have no general staff to enable your bank to know what is the position of your competitors in regard to the industry. May it not be that competition in supplying the needs of an industry may have economic consequences which may not be beneficial, and which might be avoided if the banks had statistics?—If you wish to know about the cotton situation, I do not think that I can talk closely about that, but I do know a little about cotton and a little about steel and coal. If I had difficulty in one or other of those industries I should look at my own situation very narrowly first. I should test it by such methods as a layman can employ. I should, above all things, call in the very best expert I could. I should say "There is the situation; there is the money that is lent on it; there is their earning profit; what can be done?" He might say "This group in the cotton business is not capable of being rationalised efficiently unless you add one, two, three or four other mills." I should then consider, after the thing had been properly surveyed, what were the possibilities of having a unit formed, so that they could do their buying, their manufacturing, and, above all, their selling, at an economic price—at least, what was estimated to be an economic price. If that could be done, and it was properly tabled, I should make it my endeavour to work along with some financial interest to get a solution.

2352. You have opened a large topic, which we can pursue with you, but for the moment we have strayed from the question of statistical information. We have your view on that before us, and I think you have explained to us what is your feeling as regards the value of additional information. Coming to that topic which you have just started, is it not rather a novelty for a bank to have to embark upon such inquiries as you have indicated just now, to have to call in experts upon their plan?—If you are plunged into a time like this—I am happy to say I am not very deeply concerned; but I am concerned in one or two directions—this is the method I am working on. I might touch on steel for the moment. We had some fairly important business in Lancashire before the War. One firm was supposed to produce the hardest form of steel, and during the War it was used very largely in the construction of battleships. When the War was over, and things got back more to normal, we found that this firm, and one or two other concerns, were unable to compete. It was a case of continuing at a loss or closing down the plant and machinery and hoping for somebody to buy it at a knock out price. We did exactly the same as we would do with the cotton situation; we looked out for the very best guidance we could, we had expert advice, and we were told that the process of producing this hard steel, which was used so much during the War, was about ten years behind, from the technical point of view, and that we had to do this, that, and the other thing in order that the business might be rationalised.

2353. What strikes me at once about all that is that it is odd to find the bank doing it. I should have thought that the steel manufacturer himself would have been the first person to try and put his house in order if he found the industrial conditions were against him. Why should the initiative have to come from the bank, whose business is money, not steel?—Supposing you had done this on your own account, as a private individual, you might feel you could make a better recovery of your money, or handle the situation better, by calling in somebody, rather than trust the best of the people who had not managed the thing quite so well as it might have been managed.

2354. Yes, but if I were a sick man myself and if it were my own industry which was fading away before my eyes I should think it was for me to consult an expert and say, "What am I to do?" The banks have apparently taken the initiative in telling the industries they must put their house in order?—I have made no general address to industry, I am only dealing with my own bank's concern, but that is the method we have adopted in one important case. I have hopes. The first debenture may have gone by the board and we may have taken a second position in regard to security, but I think we have a reasonable hope that it will come out very much better in the end, and the industry will be kept going, whereas before there was no hope at all.

2355. In the past you did not do it?—I cannot remember having to call in an expert before.

2356. That shows that a set of circumstances has come about now which calls for the banks to do something which they have not hitherto had to do; the emergency has been such that they have had to embark on a new enterprise?—When you have a large sum of money in a concern of that kind then you have to think of the best method to get it out. As regards cotton, I think the most difficult thing at the present moment is to find a man who can control 10,000,000 spindles. Find that man, and I think you will find five or six positions clamouring for him.

2357. When you start to put a business in order for one of your customers with whom you are pretty deeply involved the natural object of the bank is to restore prosperity to that customer, and to do that the bank would have to make sacrifices?—It is almost certain it would have to.

2358. To accept a junior security?—Yes.

2359. In addition to making those sacrifices, it may find itself compelled to lock up some of its money in the enterprise, to give it a chance of getting on its feet?—Yes.

2360. These things seem to be to some extent abnormal features. They are things that the bank does not ordinarily do. Do you think the bank should do more of that class of work, or would you be in favour of some new organisation being created for the purpose of meeting this new kind of financial difficulty—the difficulties associated largely with rationalisation?—It depends on the size of the difficulty. If you are dealing with a body of banks and the necessity runs to millions and millions, it is a very difficult question to answer. I heard from another committee which was inquiring into this subject a suggestion that something like £20,000,000 might be required for South Wales. If that is a serious proposition, if banks in South Wales are in with concerns that require £20,000,000 to tune them back into health, it is a very difficult question to see how the banks can do it, and very difficult to see where the finance is coming from at all. But if a single bank has its difficulty running into very big figures it may be wise for that bank to face for the moment the cutting down of higher grade securities and taking junior securities in the groupings that are coming along, perhaps depreciate their security for the moment, get some expert assistance, and merge their position in a new capitalized situation.

2361. There are two sources from which a business man can get money. He can go to his bank, but according to the pure gospel of banking he ought only to go to his bank for the purely seasonal requirements of business?—Yes.

2362. When he wants new capital he ought to go to the public, and if he goes to the public he would have to put out a prospectus to show a reasonable prospect of profit?—Quite.

2363. The class of business you have been speaking of does not seem to me to be met by either the bank, on the one hand—because the business does not want its ordinary banking facilities—on the other hand it is quite impossible to go to the public, because no chartered accountant would give a report on its affairs that would cause you or me to put one penny into it. Yet the business may have very great possibilities. Whose business is it to assist in that reorganisation?—There is a sort of middle-class house—the finance houses in the City—who may take on more permanent advances than the banks do, and although I think at the present time it is extraordinarily difficult to handle anything that requires big finance—in cotton I should say it is impossible—I should not say it was absolutely impossible for good steel and suchlike propositions, within moderate requirements. I have given you the exaggerated figure from South Wales, which seems to me to make it extraordinarily difficult for any group to face.

2364. It seems to me there are two developments. Either the banks may see fit to depart from the purity of their past practice and do more and more of the kind of operation you have indicated—that is to say, supporting their customers and assisting them in their work on a more permanent financial basis than they have ever done—or it may be it would be better for the banks not to go in for that class of thing, but to maintain their strict banking practice, and to set up some form of organisation such as we already have examples of, but to develop that as a direct economic contribution to the emergency?—If I had trouble myself I should try and find my own way out, rather than create, especially under Government agency, a separate institution.

2365. I am not sure that I would suggest necessarily a Government institution?—I think it is bound to be neutral. It all depends upon the extent to which a bank may be committed in the "dead-wood" trades at the moment, and how far they should do that. A bank, through no fault of its own, but simply by the development in that territory, may have got heavily weighted accounts. It would be difficult for a bank to do very much in the way of facing up to 20 or 30 mills that may be stopping, or have stopped.

2366. We have been interested to hear of the new departure of the Bank of England. It is public property now that they have set up a separate company whose function is really to examine cases where financial reorganisation is necessary and to assist that process. Now that is a very interesting phenomenon?—It is.

2367. It is experimental, no doubt, but I assume it would not have been created under the aegis of the Bank of England unless the eminent persons who administer the Bank of England had thought that that kind of thing is required now?—Quite.

2368. Have you from your banking experience come to think that that kind of thing is necessary, some new development of that sort?—Yes; there must be some source provided. As I say, it may be a question of closing down, or carrying on hopefully with more money. It depends how much more money is required, and for how long it is required. If it is a big sum of money, and I think there is a fairly good chance, if I can find such an organisation as the Bank of England has brought into being, to provide one million pounds, or one and a half million pounds, I would be prepared to take that course and write down my security. On the other hand, you could not go on pouring one and a half millions into those concerns, because it would not be sound to do it; I would go a certain distance—I am not sure how far I would go—but if you had a succession of those concerns, and kept on pouring money in, it would be contrary to the principles and practice of British banking—resting on deposits repayable on demand.

2369. On the other hand, if you had a body of that sort established, it would have the financial sympathy of the banks?—I should think it would.

2370. It would probably be most difficult to run, because it would catch all the lame ducks?—It might do, but if they pursue the Lancashire arrangement, as they are likely to do, quite a good number of moderately good ducks will come in. I do not think the isolated concern can trade here. I think it has to be a reasonably big corporation to deal with the buying, manufacturing and selling. I think it is the case for a rather big corporation.

2371. It is interesting to hear you say that, because in our history there has been a movement against the large trust undertaking?—I think I am rather against the larger undertaking with its subsidiaries and tortuous construction, but if you have a body like the Lancashire Cotton Corporation you have nothing of the sort; it comes under one administration.

2372. That emphasises what I am suggesting to you, that the kind of body I envisage as being composed of responsible people with knowledge of the problem would bring into being these reorganisations under proper supervision, and not with that financial complication which is so detrimental?—Quite. That is one of the things that one would aim at doing.

2373. It would require an organization staffed with the very best brains to deal with those cases, but it might serve a useful purpose if it were entrusted to some organization of that sort rather than left haphazard?—Well, I think the banks will have to look through their own troubles first, arrange them geographically, and see how far they can go. I do not think you can call in some expert and say 'There is Lancashire: What are you going to do with it?' I think you have to have some idea of the geographical distribution. Where there is cotton there must be facilities in the neighbourhood in close proximity to get the best out of the grouping.

2374. *Mr. Frater Taylor*: It is rumoured that the steel industry in this country will require £30,000,000 to put it on its feet. It would almost seem that a special organization for the steel industry would be necessary. Is that your opinion?—I should think so. If the figures I got from South Wales are anything like correct, I should think £30,000,000 is a moderate figure to put it at. But it is not necessary, perhaps, that the whole steel industry of this country should be put right by that one organization. The Big Five may have one or two concerns each, and they may waddle through quite well if they can get big enough entities together to work to an economic output.

2375. It would seem almost necessary that the steel industry should be surveyed as a whole?—A sort of steel bank? It may be so. It would require some body to produce the money. I do not think you could look to the Big Five to produce any substantial figure—not as they are constituted at present.

2376. *Professor Gregory*: Have you a separate department at your bank which looks after these reorganizations, or do you deal with them as they crop up?—We have not had so many to deal with as to require that department, but I do rather specialise with one particular man on those lines, so that the thing is kept up to date.

2377. Have you an intelligence department?—Yes.

2378. *Mr. Brand*: May I put a question that is rather germane, I think? At the present moment most industrial issues are made, or appear to the public to be made, by the big banks. You, and the Midland Bank, and Lloyds, have their names in big letters on the prospectus?—Yes; I should think that is true.

2379. And yet, I suppose, your bank does not regard itself as taking any moral responsibility for such issues?—Well, I would not associate moral responsibility with it. We look at the reasonable prospects held out, we look at the certificate of prospects appended, we study very carefully the quality of the directorate, and we turn down quite a lot. We are surprised sometimes to see the same prospectus come up with another bank's name on it.

2380. But in general, I suppose, these industrial issues have been prepared by some concern whose name appears in very small letters in some other part of the prospectus?—If you are speaking of the reconstructions at the present time, and issues to the public——

2381. No, I am not speaking of reconstructions; I am speaking of new issues. If you take last year, an immense number of issues were made of good, bad, and very doubtful quality, upon which I suppose, on the whole, the public lent a great deal of money. The prospectuses appear with the names of the Big Five in very large letters?—Yes.

2382. Do you not think that that system rather misleads a comparatively ignorant section of the public?—You mean the big letters and so on.

2383. Do you not think that when the ordinary investor sees "Westminster Bank" in large letters at the top he thinks that the Westminster Bank has really looked into the thing carefully?—I think there is a certain measure of moral responsibility which we regard. I do not think you will find that we are guilty of slip-shod acceptance.

2384. In foreign issues the public is guided by the issuing house that makes the issue. In industrial issues do you think it would be a good thing if there were institutions to which the public could look more for guidance, as having thoroughly investigated the issue before it is made?—You are concerned with issues for business in this country?

2385. Yes. Preference shares; ordinary shares. Take all the issues that were made last year—a lot of them have come to grief?—I do not know. If there were a protection I should not object, but you create this protection and it seems to be got through. It seems to me if the bank looks at it to see that it is honestly brought out, and that it has reputable directors, that is sufficient.

2386. You go as far as that. Does your bank make some investigation as to whether the company will earn the profit anticipated?—We do. We read our prospectus through before putting our name down.

2387. But reading it through is not sufficient in an industrial issue; you have to go very carefully into the whole thing before you can give any expression of opinion as to whether those estimates will be earned?—But those estimates are usually vouched for by people we know.

2388. *Mr. Tulloch*: The process you have been describing to us in relation to particular accounts must be fairly closely defined. In a particular case where no doubt considerable sums were owing to you you would from time to time see what was going forward by the Balance Sheet and otherwise?—Certainly.

2389. You would have the managers or the proprietors of the industry in and you would advise them, you would tell them what you wanted, and ultimately you might say, "It is necessary that you should amalgamate and bring in somebody else"?—Certainly.

2390. And for that purpose you would have your experts. I think we probably all do that, but it is suggested that the banks should go further than that and not simply concern themselves with this and that particular account and the repercussions, but concern themselves with whole industries, as it is the duty of the banks in these days to consider whether this or that industry with reference to its position should not be rationalised, or should not adopt this or that process for the purpose of putting itself in a better position. Do you consider it possible, or within the scope of the banks' duties, that the banks should take a part in that way? It is not going to be so much a question of finding credit, as putting industries on a different basis by this rationalisation process. Do you not think that the scope of the banks in reference to that wider process is very much limited; that is to say, that the banks should not themselves take the initiative in dealing with the coal industry or the steel industry in carrying on those industries?—I think you, Mr. Tulloch, and myself would have to look at our own troubles. If you talk about the thing in a general sort of way, they must belong to some banks, and I think it is up to those individual banks to consider their own situation, and to consider how they are to come out. When they have considered that, it might be possible to create some sort of organisation, and the banks might to some extent assist that organisation financially, but I do not quite see how anybody can talk in a general way about steel, or cotton, because the situation of every bank is peculiar to itself, and requires to be grouped geographically; from the point of view of seaboard, for instance.

2391. You do not think the banks can look to an industry and say, "That industry requires organising. It is not being run on proper lines"?—I think I should say so at once with regard to cotton.

2392. That is admitted. But coal has been struggling for years, and has had several reports made upon it, one or two Acts of Parliament dealing with it, and a Bill is now under discussion. You would not say that at any time in the last few years the banks might have got together and held a pistol at the head of coal and said, "You have got to do so and so"?—No, I do not think so.

2393. Is it your opinion that the banks are concerning themselves on that general scale?—No, not on that general scale.

2394. *Chairman*: You have not the equipment?—We have not the equipment, and I do not think that any good would result from that. You could bring pressure in the case of an individual, but to talk generally to the whole industry about a cure, I do not see how it could be done.

2395. *Mr. Tulloch*: In your view, I take it, the banks would not have the knowledge to say where an industry was wrong, or what it should do?—It would require an expert in all this business. A banker can form a general idea, especially after he has had a practical man over the ground. He cannot put forward any proposal as to cures; he may think a double shift in Lancashire should be brought in, but against that the Trades Union may raise effective objection.

2396. The suggestion is that the banks ought to have taken a hand in setting things right; in other words, that the banks should have assumed a control over this or that industry if they thought it was not run on right lines. I think you would negative that entirely?—Yes.

2397. *Chairman*: I am now going to ask you a few questions of a routine character about your relations with industry and commerce, particularly your method of making advances to customers. Before you tell me that, you might perhaps give us a short sketch of the organisation of the bank, how these things come before you and what is your method of organisation?—I will deal with a loan applied for, say, at a country branch. The loan may be for £20,000. The branch manager has got to set out clearly recent information about the man's character, his financial position, his connection with the bank, the quality of his account, the swing of the account—showing whether he goes up and down, or stays up——

2398. A financial biography?—Yes, for the last year or so, to show whether his business swings proportionately, or whether it stays in a sticky condition. He would set out the security in detail. The branch manager would make his recommendation, stating the period within which the advance should be repaid, and send it to the Head Office; it would be looked through in that particular section of the General Manager's Department; it would be carefully examined; and for an advance of that size they would go back on the past record to see whether the man had had accommodation before, and how it generally worked. If everything is satisfactory the business then comes forward the same morning to the Chief General Management.

2399. Is that your own department?—That is my own department; a small committee of four, three general managers and myself; I look the thing through and I initial it for the Committee. Then the Committee of Directors sits the same day and sanctions or makes certain qualifications, and on that decision advances are approved, or granted to a certain extent, or declined, and the branch manager is advised the same night.

2400. How long does it take for the application to go through this process?—If he had written on Thursday night he would have it on Saturday morning, or on Friday by wire.

2401. *Mr. Newbold*: A committee of your directors meets every day?—Monday to Friday; no Committee Saturday.

2402. *Sir Walter Raine*: To what limit is a country manager allowed to go without reference?—That depends on the size of the branch; some branches get up to £500, other branches might get up to £2,000. Coming to Head Office, the work is again broken up; the Superintendents of Branches, Assistant General Managers, and General Managers, will deal with advances up to but not exceeding £15,000; anything from £15,000 and over comes before the Directors.

2403. *Professor Gregory*: You centralise the whole of the applications; you have no local committees in your bank?—No local committees. There are some local directors, but they are more ornamental.

2404. *Mr. Tulloch*: You spoke of applications with a limit of £2,000; you mentioned a period. There will be, perhaps, in the majority of cases, certainly those connected with commerce, a limit on the basis of a fluctuating account, and in-and-out debits and credits, and so on, which will be renewed from time to time?—That is right.

2405. And that is not subject to any specific period, except that perhaps you, as some others do, make your managers apply every twelve months?—That is so.

2406. What I wanted to bring out was the fact that in these cases the banks are, so far as commerce is concerned, exceedingly elastic?—Yes.

2407. It is not a question of a special period—three months, or anything of that sort?—No.

2408. *Chairman*: You have in Scotland what we call a cash credit, have you not?—The cash credit is practically what we call in England an overdraft limit. The old cash credit is a special kind of security which is not known to the English law.

2409. It is the same kind of facility?—It is the same quality—quite. As a security it is rather longer lived than in England. In Scotland the cash credit security has a "long prescription."

2410. Is your credit position such that you are always able to meet any meritorious application for an advance that comes before you?—Yes.

2411. Have you never found yourselves in the position, that, though the application seems to you a reasonable application, looking at your position at the moment you cannot afford to make any further advance?—Well, of course, in my banking career I have known those cases, but we have brought our amalgamation system really round to an idea of working not above 50 per cent. That is our theory But of course, deposits are fugitive; sometimes a certain big advance may not go off at the right time. Broadly speaking, our ratio between advances and deposits is roughly 50 to 51 per cent. So we are not in that difficult position. But I remember quite well when I came to Lancashire first we had rather too much lent and were too short of deposits. When I came to London we also had to meet that position. I remember at times we had to call in advances.

2412. Has the fact of amalgamation, and the larger concentration of reserves, enabled you to be more liberal?—I think in selecting the kind of amalgamation we have got, we have been able to do so. If we had indiscriminately bought certain banks that were capable of being bought we might to-day be rather unhappily locked up.

2413. 50 to 51 per cent. is rather a considerable advance on what was in the old days considered a proper ratio?—Yes.

2414. What has justified you in expanding to 50 per cent.?—I think, perhaps, the pressure of demand and the general habits of banking. I do not know that there is anything very sacred about 50 per cent. It is certainly better to be 50 than 60. It is perhaps better to be 40 than 50, but in my opinion you could not conduct the commerce of the country on a 40 per cent. basis.

2415. The object behind it is to preserve reasonable liquidity?—Yes.

2416. But this figure which is a safe margin of liquidity has become to some extent conventional?—It is almost bound to; is it not?

2417. Is it an empirical figure?—If you take money from the public and promise practically to repay on demand you would yourself, even if you had no banking knowledge, know from experience the habits of people, and if you held 10 per cent. ready cash you would be able to meet at any time the calls. Behind that you have something else—the bills ready to be liquidated—behind that the securities that can be sold in the market, and behind that you get up to the position of 40 per cent. that you have fairly at hand for people calling. There is nothing beyond that. Experience has taught the bankers.

2418. You have a ratio of about 50 per cent.?—Yes.

2419. Some of the other banks have been up to as much as 56 per cent. or 58 per cent.?—Yes.

2420. And apparently no one has thought any the worse of them?—No. I do not blame the banks for getting into that position, but I think when they got to 59 per cent. they themselves would try to get lower. They do not relish being 59 per cent. It would not be my fault to-morrow if I jumped to 53; it might be caused by some withdrawal of deposits that I could not control.

2421. Quite. But the effect of that conventional figure, which ranges round about 50 per cent., is, is it not, that when you are at that point, and applications come in, you would scrutinise them more closely than you would when you were well below 50 per cent.?—I think if a man applied for an advance of £100,000 to carry a certain amount of stock which he hoped would rise in value I should decline. I might take that man on if my ratio were 48; I would take him on for a reasonable time; but I would not do it at all if it were over 50.

2422. Do you call in advances in order to lend to industrial customers?—Yes.

2423. If you had to call in one advance in order to cover another would you call in the least desirable type, in order to assist the more meritorious type?—Well, as I told you, I have not had to face that situation for many years. We have had to do so in the past. It is a very difficult task. You send out your inspector to the branches and before he has fulfilled his function the emergency has passed.

2424. But you have not any recent experience, I gather, of finding yourself in the position of having to turn down an application which you wish to assist?—No, I have not.

2425. *Mr. McKenna*: Your bank is much less lent than the others?—Yes, we have a 50 per cent. ratio.

2426. *Chairman*: You have not had that difficulty?—No, and I think it may be because we did not go very far into East Lancashire and we did not touch Birmingham very heavily in our method of development; we have avoided the area from York to Newcastle: we do not touch that neighbourhood; so we have not really got engaged in the heaviest industries whose banking is conducted by the banks represented there.

2427. May we take it as regards orthodox banking facilities, apart from the emergency facilities, in your case you have been able to meet the demands of industry?—I am sure we have, as far as our own clientele is concerned. I have had fairly big approaches from customers of other banks wanting me to take on business, but out of regard for the other banks I did not feel justified in taking on that business. I have enough money to deal with the needs of my own industrial customers.

2428. I have no doubt a number of propositions are hawked round the banks, just as people take their troubles to doctors in Harley Street?—Yes, and the symptoms are known in each case.

2429. Passing from that, how do you find yourself affected in your relations with your customers, industrial and otherwise, by alterations in the Bank Rate?—In what sense?

2430. Do you find that there is a diminution in the applications for assistance when the rate goes up?—I do not think so. You are talking of big figures, I suppose; an industrialist who needs £10,000, £20,000 or £50,000. I do not think his need is less because the Bank Rate has gone for the moment from 5½ to 6 per cent.; he would only postpone his borrowing if he could. I do not think it dominates the question of application at all.

2431. What is of interest to us is whether alterations in the Bank Rate, and particularly rises in the Bank Rate, which are of importance from the point of view of maintaining our gold position, have any repercussions upon our internal position.—Are you talking about trade now?

2432. Yes. Have you noticed any effect internally? It may be one of the things we shall have to deal with.—I think that is rather overdone. I do not think it has so much effect as is claimed for it. Take the cotton situation at the present time: You will find them asking you to abate your rate to 4 per cent., or do it at half under Bank Rate. I do not think that helps industry materially. It must be an infinitesimal help. If you have a product which is 15 to 17 points over the market price of the world, the question of Bank Rate does not affect it appreciably. It requires something more drastic as a cure than a reduction of ½ per cent. in the Bank Rate.

2433. Cumulatively over the country, however, a rise of 1 per cent. in the Bank Rate must have a very considerable effect, must it not?—If 1 per cent. over a reasonable rate persists for one year or two years, yes. It is not a very common thing here. You cannot take last autumn as typical; because America created the situation.

2434. We were the victims?—We were the victims. Trade was the victim of the American rate; you could not help that. I do not think the Bank Rate is a very important element in the cost of production.

2435. *Professor Gregory*: When the Bank Rate is, say, 4½ per cent., do your customers get their industrial loans at 1 or 1½ per cent. over Bank Rate?—1½ per cent. is exceptionally high.

2436. *Mr. McKenna*: Would you say 1½ is unknown?—I should say unknown.

2437. Would not the usual rate be one-half over Bank Rate?—A good customer with certain collateral advantages would borrow at one-half over; and one over would be the top notch.

2438. *Professor Gregory*: Do you make your loans at ½ per cent. over Bank Rate with a minimum of 5 per cent.?—We have a great many of them.

2439. So if Bank Rate goes down from 4½ per cent. to 4 per cent. no difference is made in those loans?—Well, you would get your customer coming in. He does not last very long on a 1 per cent. difference.

2440. *Chairman*: Have you noticed a diminution in trade bills in this country?—Yes, but I do not think that is really any evidence now that trade is falling off. A great change is coming in the world in the method of settlement. The drawing of a bill is a diminishing quantity.

2441. You are speaking of internal dealings?—And even Continental dealings.

2442. What is the change that has been taking place?—Just booking the account and expecting remittance at a certain time. Instead of drawing a bill you say, "I am paying in April, but I do not sign a bill".

2443. *Mr. Brand*: Do you think that is a good thing?—I would like to see bills more used.

2444. Is that because they are a useful instrument of credit?—They are a useful instrument of credit, and they also have the useful purpose of fixing people down to maturity. Verbal arrangements necessitate unpleasant reminders. I should very much like to see the bill revived, but it is very difficult to do.

2445. *Sir Walter Raine*: From what you have said, does it mean there are more goods coming to this country on consignment than before?—I do not know that I should quite say that, but I certainly think that a certain trade I know is doing much more now on account rather than by drawing a bill. It is the same procedure as you see with your tailor or your grocer; there is no bill drawn at all; you pay when he sends in his account; or you send the cheque when you think he should have it!

2446. *Chairman*: Is that due to the reluctance of the buyer to grant bills now because of the fear that he may not be able to meet the maturity?—No, I do not think so. It is merely a change has come across England and Scotland.

2447. A change of fashion, merely?—A change of fashion.

2448. I am going to ask you a quite general question which we have addressed to other witnesses before you. You have been dealing in the operations of banking for many years. Have you any suggestions to make to us as to any improvements or amendments in the banking system generally of this country, which we might recommend? What I have in mind, as I have said to other witnesses, is: All of us who move in a particular medium know better than anybody outside what are the difficulties of it; in every profession and business one is brought up short now and again by limitations and interpretations of one sort or another often imposed from outside—you say, " If it were not for that I could have done so and so ". Have you yourself felt, in the conduct of your business, at any point that there were things that you wished to do that you could have done had the system been more elastic, or had you had greater liberty of action?—I cannot say so, because we are not confined to advancing merely against security; we advance quite a great deal without security. That is the side that you wish to deal with, I suppose—merely facilities to the public.

2449. It must be gratifying to belong to a profession that does not feel it can improve itself in any way?—(*Witness*): There are many things I should like to have in this world which I cannot. (*Chairman*): This is your chance. We are being asked to investigate your particular profession with the very object of assisting you to do more and better, if you can; but we have been gratified to hear from most of the bankers that apparently they are the only profession who feel they have no shortcomings.

2450. *Mr. McKenna*: A very small point: Would you not think it advantageous if, by agreement among all the banks, banks got rid of the system of window dressing?—(*Witness*): Yes; I do not object to that. There is nothing to be said for it. There again, I think it is sufficiently well known that there is no advantage in carrying it on. (*Mr. McKenna*): I would only put that point forward as a very small point.

2451. *Chairman*: Surely in your reflective moments there must often have occurred to you things that you wished you could do. Have you thought of the adequacy of the supply of credit in this country based upon your relations with the Bank of England?—Quite. I have thought and read deeply.

2452. What is the result of your lucubrations?—I think it would be a very dangerous topic. If you wish to expand credit in this country you have got to alter your attitude towards gold, and you have got to alter, I think, at the same time, possibly, the position of Britain as the money centre of the world.

2453. You see, the civilised world has returned more or less to the gold standard now?—Yes.

2454. And it has returned to it with some modifications, has it not?—Well, modifications for the use of the open market, I suppose in that sense. There is no great change in the basis on which we work our credit except that point, the intelligent use of the open market which has been made use of in England in the last six months; I do not see any vital change so far as England is concerned.

2455. You speak of the importance of maintaining the London position: but is not London now exposed to international competition to an extent that it was not in the past?—It has certainly been during the last few years.

2456. These things, again, reflect themselves in our internal position?—Quite.

2457. The Bank Rate has had to go up because of those international causes, to some extent, so far as one can diagnose. Have you any observations to make on the international side?—I think if you are going to detach London as the receiver of whatever balances are received from abroad, you might alter the situation, but in doing so you would cut off an important factor in the economic world *vis-à-vis* approach. The value of the money market to London must be reckoned at £60,000,000 per annum. I do not quite follow the methods by which you could detach yourself and make yourself free from these jolts without for all time taking a very secondary position in the money market of the world.

2458. You would regard the maintenance of our creditor position as very important?—I think so.

2459. *Mr. Keynes*: What would your remedy be for the admitted evils of the situation?—The remedy which I have mentioned, of course, would be rather worse than the other way. The remedy must necessarily be to avoid being the receptacle for, say, French money.

2460. But that remedy, on the whole, you discard as not being desirable?—I think, taking a course of years, it would be a mistake to limit the freedom of London as a receiver of balances from every part of the world.

2461. What alternative remedy would you put forward?—The alternative remedy is to continue and still provide credit. So long as you are on a gold basis I do not think you have a remedy. Of course, you have countries which are departing from the gold standard.

2462. Apart from that you do not think there is any remedy?—I do not think there is a practical remedy.

2463. You think there is a dilemma between increasing home credit and maintaining our international position?—I think last autumn was very unfortunate for trade and banking; but that was so unusual that you must not minimise the value of the money market to London over an average of years for the happenings of a month or two.

2464. Do you see reasonable expectations of an improvement in a year, say?—Do you mean in gold?

2465. I mean in the state of unemployment and the lack of profit; I should be inclined to say that unemployment is a reflection of the lack of profit. What is going to remedy the lack of profit?—I do not know that currency is involved with unemployment; I agree to a certain point, but I think that unemployment in this country can only be cured by getting back to real hard work and getting back to efficiency.

2466. *Mr. Newbold*: Do you think it can be cured?—I think the population of this country is getting rather too big, and the process of production is getting so mechanised that we may get overcrowded with a population that we cannot find employment for. The burden of unemployment in Lancashire I should say is largely due to inefficiency.

2467. Do you put forward the main explanation of our present problem as the diminished efficiency of business men as compared with, say, 25 years ago?—It is difficult to say that, but look at the world as it is to-day: In the lowest grade of cotton you have got America and Japan producing a cheap material—a product of cotton which has never been attempted in Lancashire.

2468. Is it possible for Lancashire to compete?—That is my point: there is a lag to be overtaken. There is inefficiency; perhaps it is because Lancashire may have despised this poor grade cotton, that they have neglected it, but the fact remains that in Lancashire they are deficient in working up the cheapest grade of cotton, and in competition with Japan, and possibly with India, they cannot cut the prices.

2469. *Mr. Tulloch*: Do you think that inefficiency is the reason for our excessive cost of production in Lancashire?—I take it the other way round. If you have got a material going out of Lancashire which has to meet the competition of the world—I am talking of the " bread and butter " stuff—and it is 16 or 17 points higher than Japan you have got a tremendous deficiency to make up somewhere. It is not a question of wages; there is a deficiency to be got over as to buying, manufacturing, being big enough to talk to the middle-class people, and above all, to have a selling agency at the other end which lives and moves and acts abroad and knows what is wanted, and that is not visited once in five years—as was the case with Lancashire firms. They must be on the spot. I think that at least 25 per cent. additional efficiency is required to-day.

2470. *Mr. Keynes*: Is there any hope of getting back that position in a year or two?—I think there is; I have great hopes that the Lancashire Cotton organisation will attack the situation with an economic production.

2471. *Mr. Brand*: Money rates have been high this last year or so?—Yes.

2472. But have they not been much higher on the Continent?—Not in France.

2473. In Germany?—Yes, in Germany, but not in France. France has been peculiarly low.

2474. In France the Bank Rate has been low, but I do not think other rates have been low?—The Bank Rate has been low; other rates, perhaps, two per cent. higher.

2475. If the rates in Germany have been much higher than our rates here, then our worse position, as compared with Germany, cannot be due entirely to the Bank Rate?—When it comes to a very fine point, the Bank Rate would tell, but, broadly speaking, the Bank Rate has no great influence unless it is a very prolonged and consistently high rate.

2476. There must be other causes?—Take wages. I am told that the wages in England compared with Japan are as 10s. is to 2s. 6d. That strikes one, without going into technicalities, as being a tremendous burden on the English producer.

2477. *Mr. Keynes*: Do you think that is a burden that we can expect to carry quite soon by increased efficiency?—I think so. I am told that although on figures it is as 2s. 6d. is to 10s., the working out and the quality of the Japanese labour at the present time, the method under which it works in the mill, does not make this a comparable 2s. 6d./10s.

2478. *Mr. Tulloch*: Of course, they have a double shift in Japan?—They have a double shift in Japan, and they go into the cotton fields and plantations, then back into the mill, and back again into the country. It is not as efficient, but I am afraid it will become more efficient.

2479. Our efficiency has to overcome a great deal more in the matter of working costs than our competitors?—Yes.

2480. *Professor Gregory*: Surely it was the case before the War that British wage rates were considerably higher than Japanese and Indian?—Yes.

2481. Therefore, I am not prepared to accept the point of view you have put forward that the deficiency is entirely based on wages. May I put this to you: Is not the higher money level of British wages largely due to the fact that we have accepted a money level of wages which had not adjusted itself to the gold value of sterling before we went back to the gold standard and which is not in line with the value of sterling at the present time?—That is so, but I think they have hopes; the Lancashire Cotton Corporation, on the present basis of wages, hope to adapt themselves and put out a product which can compete with the Far East.

2482. I would not for a moment dispute that there is a great deal of leeway to make up, but if one accepts the view that——?—The leeway is about 15 points.

2483. Even accepting that, do you not think there is something to be said for the view that the main cause of our difficulties is that we have reverted to the gold standard with a parity of gold which is 10 per cent. too high?—I would not accept that. There may be a shade; I do not think it is 10 per cent. I believe that the great difficulty to be overtaken in Lancashire is to organise, to get away from the unit production, to get into group production, to have power to negotiate with the people who lay on the charges, to buy in large quantity and, above all, to have a selling agency at the other end which will work and keep things going.

2484. *Chairman*: One other thing. It is more in the nature of a moral factor. Do you think that the conditions of modern industrial life have removed a great deal of the interest and, secondly, the keenness which is shown in working?—I think there is something to say for that. If you compare it with banking life, I think to the youth who comes in hereafter and has to flick a typewriter, or some other machine, although it is as simple as a pen, it becomes monotonous. I think there is that about it.

2485. It sometimes seems to me that if you rob daily life of its sense of adventure, its sense of interest, you will not get anything like the same quality of work?—(*Witness*): I do not think you will ever get the quality to which we have been accustomed. Take the Ford car as an illustration. The Ford car reduced the process down to movements governed by industrial psychology. A man may get £8 a week for doing work that seems utterly monotonous but he gets the output all right. You are quite right, it is a horrible thought, to think of humanity being reduced to one or two movements and cutting out a third because something can be done by two movements of the hand instead of three. (*Mr. Newbold*): I must say I saw these Ford works in operation; before I went there I had a very bad opinion of them, but after I had actually seen the thing at work I concluded it did not disturb the men to any extent. (*Chairman*): Do you think it interested them? (*Mr. Newbold*): I think, as a matter of fact, with that type of industry a man does not think about it all the time; he gets steadily on with his job, and when a man has had enough of it, he goes somewhere else and finds another job.

2486. *Chairman*: We are entrenching on other topics. Your evidence has been so attractive, Mr. Rae, that it has led us into other fields. We must conclude by thanking you for your attendance?—Thank you very much.

(*The Witness withdrew.*)

(*Adjourned till Thursday next, 20th February, 1930, at 4.30 p.m.*)

FOURTEENTH DAY.

Thursday, 27th February, 1930.

PRESENT:

The Rt. Hon. LORD MACMILLAN, *Chairman*.

Sir THOMAS ALLEN.
Mr. ERNEST BEVIN.
The Rt. Hon. LORD BRADBURY, G.C.B.
The Hon. R. H. BRAND, C.M.G.
Mr. J. M. KEYNES, C.B.
Mr. LENNOX B. LEE.
Mr. CECIL LUBBOCK.
The Rt. Hon. REGINALD McKENNA.
Mr. J. T. WALTON NEWBOLD.
Sir WALTER RAINE.
Mr. A. A. G. TULLOCH.

Mr. G. ISMAY, *Secretary*.

Mr. E. L. PAYTON and Mr. EDWARD BERKELEY, representing the National Union of Manufacturers, called and examined.

2487. *Chairman*: Gentlemen, this afternoon Mr. E. L. Payton and Mr. Edward Berkeley are good enough to assist us with their evidence. They come here on behalf of the National Union of Manufacturers. I think it might be useful, Mr. Payton, if you would tell us a little, first of all, about the National Union of Manufacturers,—what is the nature of the organisation, the membership, and so on.—(*Mr. Payton*): Mr. Chairman, before I make any comment may I pass up these four copies of my notes. They may be useful. (*Documents handed in.*)

2488. Thank you.—The National Union is composed of a large number of manufacturers situated all over the country in various trades, and their main object is to try and get some assistance for the manufacturers of this country by enabling them to secure such a volume of trade as will enable them to carry on their works under such conditions that they are able to obtain their overhead expenses and possibly make a profit. We have no political views, we are quite respectable, and we do not mind whether you do it by safeguarding, or protection, or any other means.

2489. What is the membership of the Union?—I think it is about 3,000.

2490. That is 3,000 firms?—3,000 firms spread all over the country, and some of the most important firms are members.

2491. It is representative of all the different types of industry?—Yes; all the different trades, and they also have affiliated to them other associations.

2492. Will the views which you express this afternoon be the views of the Union or your individual views?—Well, I think they are both. The Union approve my points of view; I do not say that every member of the Union has, but the Committee approve.

2493. That is what I wanted to know. Your Committee have considered the invitation to come here, looked at our terms of reference and come to a generally concerted view as to the kind of evidence which you should put before us. You have studied our terms of reference. You will notice that we have to consider the whole banking and financial system with the practical object in view of making recommendations to assist industry and employment. Can you tell us, from your own experience as a manufacturer, and as a representative of other manufacturers, whether you have found yourself impeded in the objects you have just described by any financial considerations?—If I speak for myself, I have never found any personal difficulties in securing temporary accommodation at call from the bankers.

2494. The ordinary bankers' credit?—The ordinary bankers' credit, which has to be borrowed and then paid back. Of course, a bank is very much like an umbrella shop where they let out umbrellas on fine days and as soon as it is rainy they want them all back; and that is the unfortunate position a manufacturer finds himself in who desires to take money from the bank and keep it permanently.

2495. That raises at once the question whether it is the function of a bank to provide money permanently.—I do not think it is.

2496. So far as the ordinary banking facilities are concerned, that is to say, making provision from time to time to meet seasonal requirements, and so on, you have found the banking system adequate for your needs?—Adequate for that purpose. They have not always let me have all I wanted. I could do with more sometimes; we have a difference of opinion on that point; but I think generally, speaking for the manufacturers of the National Union, most of them would say within the banks' method of trading we have all been reasonably dealt with, and perhaps since the War some of us have been too generously dealt with.

2497. You think it might have been better occasionally to have pulled up some businesses which were in difficulties by a financial curb?—Well yes, but it is difficult to do, is it not?

2498. That is an interesting observation, that so far as ordinary banking facilities are concerned your view and that of your colleagues is that the banks have discharged their duties with reasonableness?—Yes. We naturally strongly object to the gold standard, which forces the banks to vary their lending rate. You borrow money at five per cent., and because America may come and borrow a few million pounds up goes the Bank Rate, down come our securities, our credit is restricted by the bank, and we find ourselves having to dispense with employees when otherwise we would have carried on.

2499. Let us first of all take it within the existing monetary framework of this country. Within that framework I understand you to say that the banks have given reasonable credit facilities to industry?—Yes.

2500. But your criticism, I take it, goes rather deeper?—The criticism of the Bank Rate. I take it the banks themselves are not responsible for a fluctuating rate.

2501. Let us start first of all with the evil, if we may. You say that for ordinary accommodation you find the banks lend what you require?—Yes.

2502. Where is it that you find something lacking; where is it that finance is embarrassing you?—Where industry finds finance lacking is, that if we have quite a good business, we will say, in Birmingham that requires £250,000 capital, we cannot get it. The finance house, or the stockbroker, or the company promoter, say " The business is much too small for us; we cannot bother about it; there is nothing to be made out of it; we cannot do it." We go to the bank and they say " No, we cannot lend you permanent capital in connection with this business. We will let you have facilities for carrying stock, or for ordering stock, and you can pay the money back at a later period, but we cannot give you permanent capital." I suggest the weakness at the moment is that you want some vehicle that industry can use to get capital of a permanent character on reasonable terms, if the proposition for which they require it is sound and approved by efficient people such as the present bankers. That could be done, in my view, by some form of Government guaranteed credit, which would enable loans to be readily floated on the public for use in industry. In the Government guaranteeing credit, it is really the people of this country guaranteeing someone who is foolish enough to want to work so that others may live in luxury.

2503. *Sir Thomas Allen*: Apart from assistance by the Government, how would a stabilised five per cent. rate for loans to industry, such as you suggest, help you?—A stabilised lending rate of five per cent. would help us because we would always know where we stood. To-day we do not know whether it is going to be five, six, seven or eight per cent., and the margin of profit in industry is so small that we cannot afford these variations.

2504. Would a stabilised five per cent. alone meet your difficulty, leaving out assistance by the State altogether?—No; we do want a vehicle for obtaining capital for industry.

2505. Apart from a stabilised lending rate?—Apart from a stabilised lending rate.

2506. *Chairman*: There are two questions involved in this, the question of stabilisation and the question of the capital required. May I take it that the sort of thing you have in mind is some development in business for which you require, say, a couple of hundred thousand pounds?—Yes.

2507. If it is a good business proposition I should have thought you would have been able to get your money if you could show a reasonable probability of an adequate return on capital. You said the amount involved was so small. Is it because of unwillingness to lend on account of the smallness of the amount that you cannot get money?—That is one point. In the average operation of a financial house the transaction has to be large enough for them to spread the very heavy expenses they incur, so that the expense seems small.

2508. *Mr. Brand*: For a public issue?—A public or private issue. The private issue may be more expensive than the public issue.

2509. *Chairman*: Have you had this experience yourself, Mr. Payton?—I have had experience in the past of the grave difficulties that one has in trying to persuade someone that a business proposition is worth their putting in £5,000 or £10,000.

2510. *Sir Thomas Allen*: Do you mean that a business proposition of a quarter of a million of money is not sufficiently interesting to a financial house on account of the expense?—I think most financial houses or brokers would tell you that a matter like that was not large enough to justify the expense. You see, if you come to Birmingham, we will say, £500,000 is small enough, and if you come to London they say, "£1,000,000 capital? That is all right." But if it is £500,000 it does not seem to interest financial people in London.

2511. *Chairman*: You are putting a rather different point to us from what we have heard from others. We have heard that there is a demand for credit in cases where a business has not got a good showing at the present moment but has possibilities. It could not produce a chartered accountant's certificate of profits which would entitle it to float a loan to the public; on the other hand it is wanting the money for a more or less permanent purpose. It is suggested to us that that kind of credit—it may be very legitimate credit—cannot be procured from the existing market or from the banks. But you are putting the difficulty on quite another footing; you are suggesting that it is not because the proposition is unproductive, but because it is too small?—Yes. But I would like my remarks to include the business that has not a good showing but has possibilities. Supposing we had a business with assets of £200,000 that was losing money. A capable man may see how he can convert that business which is now losing money and is in a hopeless condition into a profitable undertaking. He would go to the financial house, or whatever it might be, and say "We have £200,000 of assets here; we are not making any money, but here is our scheme of what we can do, and we want to borrow £200,000 as a prior debenture,—or whatever you like—over every other security, to enable us to carry this business on, and in three years' time it is recognised that we can make a profit." There is no concern that I know of to which you can go and get that type of assistance. At the moment one would have to go round amongst one's friends or business acquaintances and try and tell them what a wonderful thing this would be, and most of your friends have got their own commercial difficulties and have not their money free to put into that business, and so you retard it. In my opinion many businesses go out because they cannot get permanent capital to carry on.

2512. And do you figure to yourself the creation of some new form of credit organisation to cope with that class of case?—That is my suggestion. How you would arrive at it I would leave to people who are more experienced in the money business than I am.

2513. Let us postpone that topic for a moment. You start off with one suggestion which is interesting. You suggest that the Bank Rate, or rather the rate for advances, should be stabilised in this country at five per cent., the point that Sir Thomas Allen referred to a moment ago. Have you thought of the practicability of having two Bank Rates, so to speak, in this country?—Yes, I have thought of that. In Yorkshire there used to be a large number of banks—very nice banks they were, and they treated you very courteously and very kindly—and they had a practice of lending money at five per cent. to their customers irrespective of what the Bank Rate was. So that it is nothing new to suggest that, and I think that anyone here connected with the banking world may have a recollection of that, because they may have taken over some of those Yorkshire banks. There is one thing that is deplorable to me, and that is that with all the amalgamations of the banks, and mass production of credit and banking, they have not been able to reduce the price.

2514. *Mr. Tulloch*: Was it a 5 per cent. rate?—A 5 per cent. rate.

2515. *Chairman*: You suggest a maximum Bank Rate of 5 per cent. Would not that have a very peculiar effect if that were the prescribed maximum rate for internal commercial business? *Mr. Keynes*: I think Mr. Payton means not a maximum Bank Rate, but a maximum loan rate. *Chairman*: You do not suggest there should be two Bank Rates, so to speak?—I do not mind how many there are if they will give industry one at five.

2516. *Mr. Tulloch*: I take it you mean a rate which is fixed quite independently of variations in the Bank of England rate?—Yes.

2517. You speak of a maximum rate in your notes. You really mean a fixed 5 per cent. for borrowing?—Yes.

2518. It was done in some localities. Is it done now? *Mr. McKenna*: It is done now. It is a question of the charging rate and the paying rate?—Yes; but your bargains are only short date; most loans are seven days' call.

2519. *Mr. Tulloch*: You are speaking of an overdraft rate?—An overdraft rate.

2520. It was done, and Mr. McKenna says it is done. *Mr. McKenna*: It is done. Certain customers have got a fixed rate; when they are in credit they receive 2 per cent., and when they are in debit they pay 5 per cent.?—I am not putting it forward as anything new.

2521. *Mr. McKenna*: I am only saying, in support of what you say, that it is practicable; it is done.—I do not think there is any law that compels the joint stock banks to follow the rate fixed by the

Bank of England, but they always seem ready to do it.

2522 *Mr. Tulloch*: There was one remark you made that I should like to ask you about to confirm my impression. As matters stand now, when Bank Rate goes up you find yourselves in a difficulty; you have to close down and dismiss workmen. I think you used that expression?—Yes.

2523. Do I understand that you find, or have found, amongst your members that that is the result of an increase in the bank charge for interest in consequence of the raising of Bank Rate?—I think, generally speaking, the rise of the Bank of England rate definitely causes the joint stock banks to ask for overdrafts to be reduced and credit generally is restricted in the form of new overdrafts. It may not apply to big concerns, but to smaller concerns I think it applies generally.

2524. *Mr. Bevin*: Would smaller concerns be the first victims?—Yes; they are not on the Boards of the banks.

2525. *Mr. Tulloch*: Apart from restriction of credit or calling in overdrafts, do you say that the effect of the lending rate going up in relation to the Bank of England rate causes trouble?—I think so.

2526. The higher rate charged to you?—Yes; the higher rate. You see, if a manufacturer to-day can make a profit of five per cent. on his turnover, he thinks himself very fortunate.

2527. *Sir Thomas Allen*: How would it affect you when you borrowed at five per cent. and entered into certain obligations in regard to credit, say, overseas? How would it affect your profits? You would pay, I take it, on any increased lending rate and that would throw you out in your estimates, would it?—It would be an increased charge, would it not, and as most export business is done at a loss it increases the loss. To-day, Australia is in the position that they have refused to allow money to come out of the country for goods that are supplied to them; they permit you to collect the money from your customers, but you have to pay it into a bank and leave it there. Now, there would be, in all probability, a loss in getting that money over from Australia. We may get a deposit rate in Australia, or we may not. If we want that money we have to go to a bank and borrow on that deposit in Australia and pay them whatever the current charges for overdrafts may be.

2528. *Sir Walter Raine*: Are you aware that the money is being got over from Australia by means of barter? The wool brokers, for instance, are collecting debts in Australia for people in this country; they are buying wool out there and paying the debts here, without loss to the customer. They are short-circuiting the banks.—I dare say that may be done by the wool brokers, but it would not help in the case of a lot of countries. That means sending wool here, does it not? I had not heard of it.

2529. *Mr. Keynes*: We have been told by several bankers that they have never been aware of a case of curtailing overdrafts to manufacturers on account of there being a shortage of loanable funds at the bank. Is that in accordance with your experience?—I should say no.

2530. You would say that, when there is a restriction of credit in the country as a whole, bankers do tend as a result to restrict credit to their manufacturing customers?—I think so.

2531. *Chairman*: Does that phenomenon actually occur? *Mr. Keynes*: Is it from your own knowledge that you would say that?—Well, if I were to give a history of my own dealings with the banks I might place myself in a very difficult position. I think one has rather got to deal with it in a general way.

2532. *Chairman*: Except this, that generalities are so often founded in my experience of evidence upon what people think ought to occur, and expect to occur, but very often we find that those things do not occur. We all have a great many pre-suppositions of what we expect to find, but do not always find. *Mr. McKenna*: I think I can ease Mr. Payton's mind. One banker giving evidence here stated that in his experience as a banker it did occur. Would you say that that banker was drawing on his imagination when he stated that in his experience it did occur?—You could not have better evidence.

2533. *Mr. Keynes*: The preponderance of evidence is the other way. *Mr. McKenna*: The preponderance of evidence is the other way, but one banker said it did occur. *Chairman*: I think he said that they would scrutinise any application much more closely if they were getting near the margin than they would if money were easy; if money were easy they would be more generous, but if money were tight they would scrutinise an application more carefully. *Mr. McKenna*: I think it is more or less the same thing. Mr. Payton went a little further in saying that the banks would press a customer to postpone his application or reduce his application. *Chairman*: The representative of the National Union of Manufacturers must know the general feeling. What we would like to know is whether in fact you or your colleagues have said "Here is something I could have done and because of the present system I have not been able to do it." That is what we would like to find out, whether there has been a general impediment put by our banking system in the way of development?—I think one might say there is a general impediment against development with bank credit, because one cannot make plans and programmes using bank credit, except to a limited extent.

2534. *Chairman*: You rather suggested just now that you were in favour of the orthodox system of banking, and that your difficulties arose because there was not in existence some other method of providing credit. The two things are different. The banks may be doing all they can do within the limits of orthodox banking and it may be undesirable that they should do anything else. Then your criticism would be, not that orthodox banking, but that other credit organisations in this country are not meeting a particular kind of need. Which is your view? Is it that the banking system in this country is not working right, or that it is working very well within its own limits but requires to be supplemented by something different?—The banks are founded on the assumption that they have to lend money at call because the money lent them by depositors is also at call; therefore the credit they give must be of a temporary character. I suggest that that is not sufficiently elastic for industry. If the banks could be developed in a higher sense, that would enable them to provide under proper conditions capital that could be fixed for a period of years, five, ten or twenty years. I think there is a real need for one to be able to go to one's banker and say, "Can you arrange to let me have money for five or ten years?" At present the banker says no.

2535. Then the consequence of that might be that the depositors would say that their deposits should be fixed for a period of time?—No, I am suggesting that, should some new form of credit be created, that would enable the banks to fix loans for a period.

2536. *Mr. Brand*: Do you think the fundamental difficulty of industrialists now is the obtaining of credit, or the inability to take credit because they cannot make profits?—No. I think the fundamental difficulty to-day is that, owing to their market being besieged by other countries' manufacturers, a good many of them are unable to secure a sufficient volume of trade to operate their works—a sufficient quantity of production to enable them to recover their standing charges.

2537. Leaving short credit—the credit you get from the bank—out of the question, if you were to borrow capital for ten to twenty years as you suggest, I suppose it is obvious that the lenders must consider whether you are making profits or not?—I take it the banks would operate. They would utilise their knowledge and experience and know the capacity of the firm to do that. But if that credit were guaranteed in some way——

2538. Guaranteed by whom?—We will say by the Government.

2539. Is your suggestion that the taxpayers should, without having responsibility for an industry, just guarantee any money that it borrows?—They would benefit by it. As there was a general improvement in trade and production they would benefit by it, and the increased trade would more than compensate them for the risks they ran.

2540. But if the industry made a loss?—In regard to the question of an industry making a loss, you would have to take a very small percentage on those loans for a reserve fund to recoup possible losses.

2541. Would a small percentage recoup anybody for the losses made in industry during the last ten years?—No; I suggest that any money that was lent should be a first charge, and however poor an industry is to-day the loss on a first charge would not be heavy. It has got to be on the law of average.

2542. I think there have been a good many cases recently of first and second charges being considerably written down?—I think if you take the collective amount of business that would be done under a scheme like that, the reserve could be built up.

2543. Your suggestion is that the Government should guarantee practically all advances to industry of a long-dated nature?—All advances that were first charges.

2544. *Mr. Keynes*: Would it not meet your point if there were created some kind of new Investment Trust or Finance Company, with a very large capital and possibly some Government help, which would be administered in the same kind of way as banks administer their affairs, and which would take bonds of moderate amount for, say, ten or fifteen years, and issue their own capital to the public against those bonds?—Personally I would rather see the scheme worked through the existing banks because I think they understand more the difficulties of industry, having operated for so many years.

2545. It might be an Investment Trust that was sponsored by the banks, but which would get long-term money from the public out of which to make loans? That is what you want?—Yes.

2546. *Sir Thomas Allen*: Your view really amounts to urging that the present system of banking is totally inadequate to meet the needs of modern industry, and you desire some other instrument of finance, working with or without the banks, to be instituted in its place?—No; I do not say that the services rendered by the banks are totally inadequate; I say the banks' services, according to their constitution and the conditions under which they operate, have been reasonably satisfactory for industry.

2547. But insufficient?—But insufficient. Some new channel is wanted.

2548. *Chairman*: Let us see a moment where this leads us. The purpose of obtaining these additional credit facilities is for the development of industry, I take it?—Yes.

2549. Development of industry means that you will embark on fresh enterprises, and, I suppose, produce more commodities; but what is the use of producing more commodities if you cannot get them sold?—Well, I was rather under the impression that anything of that nature was barred from this discussion.

2550. Oh! nothing is barred really from the discussion round this table, I assure you. What I was thinking was this. The cost of money is one of the costs of production. Does the element of finance at the present time bulk sufficiently large as a factor in the cost of production that if you were able to reduce it it would make such a difference in the cost of production that it would enable you to cheapen commodities and possibly recover markets? You would have to treat money as one of the costs of production?—Yes, naturally.

2551. Is there in that factor in the cost of production sufficient elasticity to enable you, if the efficiency of our financial system were improved, to get in that factor alone sufficient reduction of the cost?—I think if you analyse how industry has to get money you frequently find that one is ultimately compelled to go to a man whom we will describe as a company promoter. He looks at your proposition, he examines it, and then he proceeds to have every asset valued at the highest possible value that can be put on it. They do the same to the plant; they practically write back again all the depreciation which has been carefully written off. Then they add something for goodwill. Then they say, "We will go to the public; we will get the money for you"; and by the time they have finished they leave you with your business and very little extra money. They have taken out a big profit and the costs of the operation will take up several years of good profits.

2552. And you are left with an over-capitalised business?—You are left with an over-capitalised business, which increases the cost of production to your customers.

2553. *Mr. Tulloch*: Would cheaper credit, more extensive credit, of any sort whatever, help you to-day in relation to the fact that you are suffering from lack of demand?—I am assuming that there will be something done to create the demand. One naturally would not want the money if one could not sell the goods. I am assuming the demand will increase. We cannot go on as we are.

2554. *Chairman*: And if the demand were to increase from other causes, would you not get as much money as you wanted? If you showed that you had markets for your goods finance would come to you?—I do not think we would get permanent assistance.

2555. *Mr. Brand*: If you have only small financial requirements do you have difficulty in the City—if the banks cannot do it because it is not their business—in finding any organisation which will help you on satisfactory lines?—I should say it is very very difficult.

2556. *Mr. Bevin*: And it is very desirable when you do want to expand, that the method of raising credit should not leave any business entirely dependent on the company promoter?—No; or leave the money at call. One can hardly expand a business with any feeling of comfort with money at call; if a crisis happens and the Bank Rate goes up credit is restricted, and your overdraft is restricted when you may be in the midst of quite important developments. The developments are justified because we all know that these times of depression pass away.

2557. *Mr. Brand*: May I ask what sort of financial people you go to? I do not want names. Supposing an industry wanted, say, £250,000 on debentures, or preference shares or anything else, would you go to a stockbroker in the first instance, or to whom would you go?—You would go to anybody you thought would do it.

2558. How do you know whom to go to?—By inquiry.

2559. What type of financial institution would you go to? Would you ask your bank to advise you?—No, I do not think the bank would take the responsibility of advising you.

2560. *Mr. Newbold*: They do not do that?—I do not know; I have never asked them.

2561. *Chairman*: When you come to London to get money what sort of doorbell do you ring?—We should go to financial houses, to stockbrokers, to gentlemen that London is very full of, who are financiers.

2562. *Mr. Brand*: You would not feel there was a particular place to go to?—If I want to do a thing to-morrow I know there are plenty of people I can go to to-day and I am perfectly certain they would say "No, we are fed up." And yet the business may be a perfectly good one to build up.

2563. And yet a year or 18 months ago they would have received you with open arms?—Because they could take a quick profit and leave us to carry on.

2564. When you say "financial houses," are they houses with large capital or small capital?—As a rule it is not done by large capital, it is done by capital manipulation. If we go to a financial house, the financial house can go to a bank and borrow money which the bank would not lend us. The bank knows the financial house will have the scheme put into shape and floated on the public; they will get it underwritten, they will all get their profit out of it, and in a few months they will repay the bank.

2565. And on this prospectus will the name of one of the big banks appear?—As a rule.

2566. *Mr. Bevin*: There is no real system at all?—There is no real system.

2567. *Mr. Brand*: I ask that because I live in the City but I confess I do not know any sort of small institution to which an industry could go. *Mr. McKenna*: I do not think there is such an institution. *Mr. Brand*: There are lots of intermediaries. *Chairman*: What Mr. Payton is pointing out is the liability to exploitation just because a manufacturer has not sufficient strength. You say it is the small business that is chiefly hit by want of credit facilities or by the Bank Rate rising. Supposing we take a small business that has got an overdraft of £10,000 which it has obtained from the bank at 1 per cent. above Bank Rate, and the Bank Rate goes up a ½ per cent. The effect of that upon this particular manufacturer's business would appear to me to be almost inappreciable. Supposing a man had an overdraft of £10,000, it seems to me it is so small a thing, compared with other large items of charge, that it is neither here nor there?—On the point that the actual amount of money involved in such a transaction seems to be small, the rise in rate is surrounded with other things. If Bank Rate went up the bank might require the man who had had £10,000 to reduce that by £2,000. Business is not good, sales fall, expense ratio increases and the manufacturer has to sacrifice £2,000 worth of stock; he may have to sell £3,000 worth of stock to realise £2,000 to pay off an overdraft which is of a temporary character and pay creditors.

2568. *Mr. Tulloch*: Have you in all your experience heard of a case of that kind, where the Bank Rate having gone up the bank call on the manufacturer to reduce by 20 per cent. the amount of his overdraft, or any proportion of his overdraft? I never have. I ask you?—Yes, I have such a recollection. It frequently happens.

2569. *Mr. Brand*: Does it happen because of the Bank Rate, or because the bank thought the security was not quite good?—No; if the Bank Rate goes up securities depreciate—even the best securities may depreciate quite a substantial amount. The Bank Rate goes up, and, therefore, people who borrow money on those securities have to find additional security or cash to keep their cover.

2570. *Mr. Tulloch*: I am speaking about the manufacturer. I would rather like to emphasise this. I do want to hear from you something more concrete, because quite frankly it is a most astonishing statement that a bank because Bank Rate goes up may be expected to reduce the accommodation of a manufacturer. I have never heard of it in my experience. *Mr. McKenna*: May I suggest that the order in which the banks proceed is somewhat as follows: Bank Rate rises, and the Bank of England, in order to make the rise effective in the market, restricts the quantity of credit by reducing the cash basis on which the banks lend. The banks, having a smaller cash basis, are forced to lend less. It is conceivable that if a bank has got a great deal of money out on financial loans it can afford to call those in and not call in trade loans, but if all its loans are trade loans it must restrict trade credit. *Mr. Lubbock*: Would it call in existing loans? It might merely refrain from making fresh loans. *Mr. McKenna*: It has limits, and those limits may not be drawn upon at the time, but if those limits are drawn upon it must restrict trade credit; there cannot be any alternative, as far as I can see. *Chairman*: I think that some of the banking witnesses said it affected their industrial advances last of all; they had a lot of money they could get in naturally from other quarters. *Mr. McKenna*: May I raise a question upon the word "naturally"? I do not think that a bank would have a lot of money which they can call in naturally if it is used in trade. If they have financial loans they can do so, but a bank may choose to lend its money in trade. *Mr. Keynes*: Is there not force in what Mr. Payton says? Whatever the security may be, whether it is gilt-edged or other security, the effect of a rise in Bank Rate may be to reduce that security. Was not that the point?—(*Mr. Payton*): Yes. (*Mr. Berkeley*): May I be allowed to ask Mr. McKenna a question? *Chairman*: It is quite wrong, but please do so. (*Mr. Berkeley*): In which times are the banks more likely to call in their credits—in good times or in bad? *Mr. McKenna*: It depends on the quantity of cash they have. If the Bank of England are restricting the quantity of cash by themselves refraining from lending, or calling in loans or securities, the banks are bound——(*Mr. Berkeley*): Therefore they would be more likely to call in their credit in bad times? *Mr. McKenna*: It depends, again, on what the Bank of England are doing. We are not free agents in the matter. *Mr. Tulloch*: Theoretically I entirely agree with what Mr. McKenna and Mr. Keynes have said, but my question was really directed to a particular case, which I do not think happens. Of course, a bank would call in financial loans first of all, and we have had evidence from bank managers that the very last thing they would do would be to restrict trade credit. In point of practical fact, I would like to ask this witness, whether he has any evidence of that having been done. *Chairman*: Have you ever had a loan called in when the Bank Rate went up?—(*Mr. Payton*): I do not know that I have personally. The calling in of financial loans restricts purchasing power and reacts on the manufacturers by reduced consumption.

2571. *Sir Walter Raine*: In Mr. Payton's experience he has doubtless had concrete cases; if he could give us a concrete case dealing say with a £10,000 overdraft it would be helpful. *Chairman*: Has this thing ever happened within your own knowledge?—I should say there is no doubt. Of course, I have not kept a record of cases for the purpose of giving evidence in this case, but from my own experience of business I should say that what I have illustrated has frequently happened.

2572. *Mr. Keynes*: Is not the difficulty this: What happens is that the higher Bank Rate makes business less profitable, therefore the credit of all kinds of manufacturers is not quite so good as it was before. If in such circumstances the bank is reducing overdrafts, it will probably select those customers whose credit is rather extended in relation to what they are worth, and the effect will be that those individuals will not be given so much credit as they had six months earlier? *Chairman*: That may be. On the other hand, we are searching for causes of distress, so I should have liked to have been told whether that has happened. *Mr. Keynes*: In 1920-21 overdrafts were called in, were they not, Mr. Tulloch? *Mr. Tulloch*: So far as I am concerned, no. I cannot answer for the other banks. *Mr. McKenna*: Of the big banks you are the least lent bank? *Mr. Tulloch*: I agree. I find difficulty in answering the question; it is not within my knowledge that overdrafts were called in; so far as I am concerned none were called in; but as Mr. McKenna says, I am the least lent. *Mr. Keynes*: Would it be possible for you, Mr. Payton, to ask your 3,000 members whether it was the experience of any of them to have had overdrafts called in in the period 1920-21?—I feel that there would be a considerable amount of delicacy in the members discussing or committing themselves to such a thing. But I think, as Mr. McKenna said a short time ago, it must have been so; if credit is restricted, securities go down, stocks go down, and business is less than it was; it must have an effect.

2573. *Mr. Brand*: If you take a time like this—it is not due to the Bank of England rate, in my opinion, but to the fact that commodities have fallen enormously—there must be a lot of loans which are not as well covered as they were. It seems to me if you take a loan of £10,000 it will be dealt with by some branch office; when the Bank of England rate goes up the Head Office sends to the Branch Manager and says "You have to reduce loans." If not, the Branch Manager will not reduce loans, unless he thinks the security is insufficient. But would a circular go from the Head Office to the Branch Manager to say "You must call in loans?" *Mr. McKenna*: In my own bank, so far as I know, no such circular has ever been issued. I have heard of one being issued by other banks. *Mr. Keynes*: That would be not because the Bank Rate has gone up but because the base of credit was restricted? *Mr. McKenna*: Because the base of credit was restricted. The base of credit being restricted, total deposits come down, and the banks find themselves with a higher percentage lent than they want to have, and then they restrict overdrafts. Naturally they restrict those overdrafts which they think are less secure, although they were good lending propositions when the loan was made. *Chairman*: Has Mr. Payton thought of it from this point of view: Of course, alterations in the Bank Rate have an object in view. Would not the object of the alteration of the Bank Rate be defeated if you had a stabilised internal rate for advances?—Well, I do not know that my own knowledge is sufficient to answer that question. I should say, as a manufacturer, I am not concerned with the difficulties of other people who borrow money who wish to put up the Bank Rate to eight per cent. I object to their charging me eight per cent. because someone in America or Germany wants a few million pounds. The banks operate on such a small basis that it is bound to have an effect, therefore they think they should charge the customer the higher rate to create reserves or make profits.

2574. *Chairman*: But may not worse disasters overtake industry if you do not correct the situation which the alteration in Bank Rate is intended to secure?—I do not think the industry of the country ought to be the subject of the rise and fall of foreign markets.

2575. That is an item which we could disregard if we lived alone, but how, in an international world, can you disregard it?—I should not have thought it was impossible to separate the domestic currency and domestic banking from foreign banking. Some of our banks are opening branches abroad; they are no doubt lending money to Tom, Dick and Harry; the basis of their credit is the industries of this country, and they take that credit abroad and lend it to anybody who wishes to borrow it, and if the rate of interest is higher than here they restrict their lending here.

2576. *Mr. Brand*: Would you adjust the position of this country to the conditions of other countries by a fluctuating exchange?—I do not see any reason why our industrial Bank Rate should be affected by outside conditions.

2577. *Chairman*: But it is, in point of fact, is it not?—It is to-day.

2578. How do you propose to obviate that?—I do not think I have come here, really, to tell you how you are to do it; I have only come to tell you of our difficulties. You might use the gold standard for export. You might have the home trade divorced from the gold standard.

2579. *Mr. Lubbock*: I think I was right in understanding Mr. Payton to say something of this kind: that his real difficulty was not the obtaining of money from the banks for the short period that is recognised by the banks for loans, but the obtaining of money for longer periods?—There is no means today whereby permanent capital can be reasonably obtained.

2580. I do not think you suggested that in the present state of things banks should be expected to lend for five or ten years, but that you wanted some other institution that might be able to provide for that?—Yes.

2581. *Mr. Bevin*: Supposing there was State credit behind industry through some institution, would you also be prepared to have the reserves of manufacturers protected by law? In other words, do you not think a good many industries have been brought to ruin by the dissipation of reserves, and that they have landed themselves in difficulty by being unnecessarily in the hands of the usurer?—Are you referring to the banks' reserves?

2582. No, I am referring to the manufacturers. Business after business has been ruined; after years of prudent and conservative finance somebody has come in and taken charge of the business and dissipated those reserves. If you have State credit, what protection are you going to have to see that the reserves of business are protected?—I would like to see in every public company before dividends were paid the capital in that business provided for by a sinking fund to be created over a period of 25 or 30 years. That is to say, you would have to take out of your profits, before you pay a dividend, sufficient to replace the company's capital at the end of a period of 25 years.

2583. *Mr. Tulloch*: Do you not in effect do that by depreciation?—I do not think so, because what you write off in depreciation is something that is wasted, something that is gone. These reserves should be invested in cash outside the business.

2584. But your depreciation exists in some form; you cannot have something that is gone, but you have it in another form. Is not that the basis of depreciation?—I should not have looked at it in that way. We write off depreciation in our balance sheet because we have consumed so much of that plant in the production we have created. Therefore it has gone; there is only going to be left at the end of a given period a residue of iron, or whatever the plant consists of, which has a scrap value. I think that every business should be operated in such a way that your assets would gradually represent, with your cash reserve, what they would fetch if you found that the conditions of that business has ceased to be profitable and you were faced with the winding-up of your business. In many instances we see, a company will pay a dividend for many years—20 years—of 10 per cent.; at the end of that time the plant is useless, conditions have changed, you call in the auctioneer and find that the dividends you have been receiving have largely been your own capital that you have been spending.

2585. But what has become of the money you have set aside for depreciation?—You set money aside for depreciation, and as a rule you find it used to buy more stock.

2586. You have been improving your assets and keeping them up-to-date to the extent of the amount you put aside?—Yes; but your trade changes and ceases, and you have to wind up your business, because it is unprofitable to carry on. Then you have to face your shareholders and say, "It is a failure; we have got to wind up," and they get 5s. back; so they have been living on their capital.

2587. *Mr. Brand*: Supposing a business which is profitable wants more capital, would you say that, instead of putting the money to reserve, in its own business, it should buy War Loan, or something like that?—I think the replacement of the shareholders' capital should be something that is invested free of any mortgage.

2588. Even if the shareholders' capital is represented by assets of the company?—Yes. You could agree on the proportion of the capital that you must replace by the ability of the assets to realise so much in the pound.

2589. *Mr. Bevin*: Supposing you had a State institution to guarantee permanent credit, would you also be prepared for the State to impose a limitation of profit somewhere near the amount you would have to pay the State for the money?—I do not see any objection to a co-operative arrangement—that if you receive benefit you should pay for it.

2590. *Mr. Brand*: How would you fix that limit? If a company got money for 5 per cent., would you prohibit their paying a dividend of more than 4½ per cent.? *Mr. Bevin*: I do not say the exact amount, but a fixed relation.—If you had a loan guaranteed by the State you would be able to get that money for 5 per cent., those bonds could be sold to the public, and they should always be a prior charge.

2591. *Mr. Brand*: Do you think if the State guaranteed all industry its credit would still be on a 5 per cent. basis?—I do not see why not.

2592. *Chairman*: And if the guarantee were called on, I suppose it would have to be met out of taxation?—No, the guarantee would never be called on, because the loan would have to be paid off in a period of years; you would have your sinking fund to meet that—so much per year. If you borrowed one million pounds to be redeemed yearly in 20 years, the redemption and the interest would not be heavy at 7 per cent. interest and 3 per cent. redemption, an annual payment of, say, £80,000.

2593. *Mr. Tulloch*: That is assuming your industry is profitable? *Chairman*: Yes. That is the whole point.—I think it is a very poor business or industry that could not meet its first charge, and the first charge on a State loan would always be such an amount that it would be for all ordinary purposes, you might almost say, realisable.

2594. *Mr. Tulloch*: To-day a good many businesses are carrying on at a loss?—We prefer in this country, apparently, to keep our own men on the dole and buy goods from other people, and let them take the wages. The prosperity of this country is absolutely wrapped up with the purchasing power of the people. If you have one and a-half million on the dole, how can they buy anything?

2595. *Chairman*: What is your remedy then, Mr. Payton?—I think the remedy is, that if we can make in this country anything reasonably competitive with a foreign country, that those goods should either be heavily taxed or prohibited from coming into this country until we have our own people fully employed, and even though we had to pay more for an article at home than we paid by buying abroad.

2596. *Mr. Bevin*: Would you apply that to agriculture?—Yes. Even supposing you had to pay 10 per cent. more, for the sake of argument, by buying in this country than buying abroad, as most of the cost of the production of goods is labour, you save 10 per cent. by buying abroad and you get 90 per cent. loss to the workers of this country.

2597. *Sir Thomas Allen*: Your remedy is in the first instance to stabilise your power to borrow money from the banks, say, at not more than 5 per cent.; secondly that the State should come to the assistance of industry, having a first charge upon the assets of the business; and finally that industry should be safeguarded by a system of protection to enable our own people to work. *Chairman*: That seems to me to be, Sir Thomas, the outline of Mr. Payton's view. *Mr. Newbold*: Should that include food as well?—I think the price of food should not be increased to the people, but it should be subsidised.

2598. *Mr. Bevin*: But still, if I have to pay for it as a taxpayer, it will not make much difference whether I pay it to the tax collector or to the baker. *Mr. Newbold*: You would advocate that industry should go on the dole?—I do not suggest that industry should go on the dole. They are getting there.

2599. *Mr. Newbold*: It seems to me from what you suggest that it is a question of putting capital on the dole instead of labour?—I do not think so.

2600. What is the purpose of the State?—The purpose of the State, their first and foremost duty, is, I think, to see that the people of this country are employed at a proper rate of wages. I am interested in a business where before the War they paid their men £1 14s. 2d. a week wages on average all round. To-day those same men are earning £7 or £8 a week. If we followed the trade union views, they would be getting £2 12s., but we do not follow the trade union rates; we say to our men, "You give us the work and we will pay you the money." Although we have many trade union men in our works, we will not limit earnings. Their rates are a hindrance to the industries of this country, because they restrict the earning powers of their own men and put everybody upon the same basis. In the business I am interested in, under protection we are paying the men properly, they are adequately rewarded, and I say that if the McKenna duties are removed, we shall be compelled to discharge thousands of men and import from America, Germany or France the parts or pieces that we want out of the surplus production of the factories abroad, who will work to the maximum and cheapen their costs, and thousands of our people will go out on the street.

2601. *Chairman*: We are getting on to very large topics; I do not know how far it is within our terms of reference to discuss the question of protection and tariffs?—I think they are bound up with the problem. If you take the effects of the McKenna and Safeguarding Duties, they are in favour of the employees of every company where they have been adopted.

2602. You have had, I think, some experience of what is now rather grandiloquently called "rationalisation." Have you not overhauled industries in order to increase efficiency and reduce costs? Would you give us some idea how far in that direction help is to be found for the industries of this country? One does not want to confine it to your own affairs especially. We are told that rationalisation is the way that salvation is to be found. First of all, what in your view is this process of rationalisation, and how far can it be applied, how much will it do and how far can finance assist it?—Well, Mr. Chairman, I have looked into many schemes where a large number of works were to be tied together under the title of "rationalisation," but I have come to the conclusion myself that, however you may rationalise certain trades to-day, you are not going to help them very much unless you give them the customers to take their goods. If rationalisation were carried out I think we would shut up quite a large number of works as not being necessary for production, because they have not had the means in the last ten years—a good many of them—of buying efficient plant and machinery and buildings and they have got behind-hand. If you tied them all together they are not going to be much better off.

2603. But is finance wanted to enable these stronger and larger bodies to provide themselves with more efficient plant?—I think the first want is the trade, the second want would be, if the expansion were sufficient, to secure more permanent credit. By amalgamating several works and concentrating similar production and closing down some until better times come a better position can be created.

2604. Of course, in times of prosperity it is comparatively easy?—Yes.

2605. Everybody is making profit, and even concerns which have been unremunerative begin to look up again?—Prices rise to a profitable level.

2606. Prices rise; but we are in the trough of the wave at the present moment, and the question is, whether anything can be done to assist us?—Well, I am afraid the basic need is to stop goods coming into this country which we can make ourselves.

2607. That is your considered view?—I think so. I do not see how else we can do it. I am interested in one business in which our turnover, to talk in round figures, is nearly £10,000,000. We consider that if we make £500,000 net profit we have done well. If we lose one-tenth of our estimated output of the factory—that is £1,000,000—as the dead expense is 20 per cent., we have to carry £200,000 additional dead expense on the £9,000,000 turnover, As our gross margin between labour and material would be 25 per cent. on the turnover, we are deprived of the £250,000 contribution on the £1,000,000 we have lost, so that without anything else we have lost £450,000, which leaves our profit very low. Now, the Germans or the Americans or the French have only to put goods on this market to deprive us of 10 per cent. of our estimated turnover, to put us in a position that we cannot make a profit. On that business of £10,000,000 turnover if we had a real pressure, very likely out of the same workpeople we could squeeze another £1,000,000 turnover; as you get over the £9,000,000 turnover the gross profit, except for certain deductions, practically becomes your net turnover.

2608. And all your State guarantees and everything else would be worth nothing unless you had a good turnover?—No; but you would not ask for it unless you needed it.

2609. *Sir Thomas Allen*: To come back to State aid to industry, have you had any experience of, or have you used, the Overseas Trade Department?—No, we have never used it. I think we have made proposals to them, but I have no recollection of having used them.

2610. You have not any views as to whether an extended system on those lines would be helpful?—No, I would rather you used the banks' organisation, because they are all so closely in touch with the manufacturers' needs, and it seems to me unnecessary to set up a new channel to operate.

2611. *Chairman*: I propose to ask Mr. Berkeley some questions, unless any of my colleagues have any further questions, or unless Mr. Payton has anything to add?—I do not think so. *Chairman*: We are very much obliged to you for coming, Mr. Payton.

(*Mr. Payton then withdrew*).

2612. *Chairman*: Now, Mr. Berkeley I think you have your own contribution to make this afternoon? —I may say, Mr. Chairman and Gentlemen, that I endorse in the main what Mr. Payton has said, with some exceptions. I conceive that what is first required, if industry is to be helped and labour employed, is trade. Now, to obtain trade it seems to me that the first thing that is necessary is enterprise, and to encourage enterprise we come back again to the necessity for capital. That capital, to my mind, is not necessarily the permanent capital, as Mr. Payton says. I am speaking now for myself and not for the National Union of Manufacturers; I do not know what their view may be, but I do not entirely agree that there is no necessity for some further assistance or co-operation with the banks. I have no complaint whatever to make against the banks; I have always received the assistance I wanted from the banks, but what I do think is that the banks are not sufficiently in touch with industry; in other words that the machinery through which capital is directed into industry is not efficient. I think that we have the picture before us of Germany; if we study the way Germany built up her trade we all know that she built it up against the fiercest competition that the world has ever seen in a period of about 40 years, and she built it up upon the capital which she borrowed in this country. We financed international bills. She not only built up her industry, she built up her export trade, she built up her technical schools co-operating with her industry, and to my mind it was that success, with which she became inebriated, which brought the War. I say if we take the picture which is presented to us by what Germany did, and add to that what it is open to us to do with the Empire that we have at our command, and with the necessary finance to do it, we have a great future before us. I think the only thing that is necessary is to ascertain what kind of finance is required, that is to say, should it be permanent or temporary finance, and, having decided upon that, how it is to be obtained.

Now, if I may read a few of the notes that I have here, they will answer a number of questions that have been asked this afternoon by gentlemen round the table and that Mr. Payton has answered to some extent. My suggestions are based upon the theory, which I think is generally acknowledged to be a psychological fact, that when business is brisk, and there are plenty of orders in a factory, and the work-people are aware that the works are full of orders, there is generally an increased tendency towards efficient output; in other words, the more work there is to do the nearer the employees work to 100 per cent. efficiency; the less there is to do the more inclined they are to limit their output and go slow.

If I understand rightly this Committee has been formed with the view of studying the relations of finance and industry in this country, and we are asked to give evidence upon this subject. It seems to me that whilst finance is almost inseparably connected with industry the two subjects should be studied separately. I propose, therefore, in this evidence to confine myself to the first, namely, finance, for I hold, rightly or wrongly, that for industry to prosper finance must be first forthcoming, and must be the first consideration. In my opinion the prosperity of industry is based upon the following constituents:—

> (1) The constructive ability of the industrialist; (2) Enterprise with reasonable conservatism; (3) Adequate finance; (4) Up-to-date factory equipment; (5) Labour conditions which will enable industry to work with constructive ability, finance and up-to-date factory equipment at 100 per cent. efficiency.

We are all agreed that that is so. I am of opinion that no schemes, however well intentioned or worked out, will ever succeed unless steps are taken to secure the five essentials named above. As it is obvious that these cannot all be obtained at once, I propose to commence with the first three. (1) and (2)—the industrialist with the constructive ability and enterprise—and (3)—the finance with which to support him. Whether the country follows Lord Rothermere and Lord Beaverbrook in their policy of imperial free trade, or whether they follow schemes suggested by large industrialists like Lord Melchett and others, the fact must remain that without properly organised liquid finance which can be directed into imperial or national industry in such a way that it may have a more or less secure earning capacity, nothing that propaganda or talk can do to educate the public will, to my mind, improve the situation. Therefore, it is for this reason that I tackle the problem of finance first.

It is beyond dispute that if the country is to be successful her export trade must be increased. How then is the finance to be supplied to do this? It must be borne in mind that at the present moment a great deal of the finance going into the equipment of up-to-date industrial concerns is foreign capital. Are we going to continue to permit our industrial concerns of this country, and, even more so, our imperial production of raw materials, to be controlled by foreign capital? If not, what are we prepared to do?

The Bank of England and the London clearing banks endeavour to justify their existence and position by showing that the advances of the 10 London clearing banks have risen from £780 millions in December, 1921, when prices were considerably higher than they are to-day, to £989 millions in December, 1929, whilst on more than one occasion the monthly total exceeded £1,000 millions. They admit that they are following and have always followed a conservative policy in regard to dividends to shareholders, and that their additional profits are largely applied in creating reserves against contingencies which are vital to the industrial and financial position of this country and the world at large. No one in his senses will dispute the soundness of this argument. It is perfectly obvious if one assumes that the deposits of the 10 London clearing banks in the aggregate amount to £1,600 or £1,700 millions that these banks have done their share, and more than their share, in making advances to commerce and industry. The question I would ask, however, is how much of these profits are annually invested in bank reserves. By this question I do not mean to imply that, if such reserves are invested in bank buildings and the like, and these reserves are eventually written down to low figures, whilst this process is going on they themselves do not encourage industry; on the contrary, my object in putting the query is not to find any fault with the conservative policy that has been followed by the Bank of England and the joint stock banks, but to endeavour to show that this machinery as at present constructed is out-of-date for the purpose of supplying the three first factors necessary to solve the industrial problems before us. Mr. Goodenough, the Chairman of Barclays Bank, in one of his speeches which I have read lately, is reported to have said "It is certain that the banks will help industry, but industry must also help itself by placing itself upon a sound basis both as regards efficiency and costs of manufacture." I hold the view that it is quite easy for a Chairman of a large bank in the high position of Mr. Goodenough to make such a statement as this, but under present conditions it is quite another thing for a manufacturer to put Mr. Goodenough's advice into practice.

If antiquated methods and old machinery are tc be replaced by new ones these methods and machinery have to be scrapped and replaced. This means capital or finance. Where is this capital or finance coming from? At present large resources of the banks are locked up in gold reserves, Government securities, Treasury Bills and the like. Such resources as have been used by the banks for industry are in a great measure found to-day in frozen credits such as those that have become immobile in such industries as cotton, coal, steel, shipbuilding, and a number of others. I am not a banker, and, therefore, have not the facility to quote figures, but I have every reason for believing that these amounts must be exceedingly large.

The questions I ask myself, therefore, are: Firstly, what are the reasons of these frozen credits? Secondly, how can they be liquified, and can any portion of the capital otherwise locked up be now directed into industry? The answer to the first question is obvious. In the endeavour which was made by many industries to avoid paying out in excess profits tax, corporation taxes and the like, the heavy demands made upon them, many industrialists invested large sums of money in the equipment of plant and machinery which were out of all proportion to the demands of the particular industries involved. Finding themselves short of liquid capital they went to the banks, who, in their sublime ignorance of how to lend money to industry, loaned large sums not upon the ability, enterprise or earning capacity of the individual or industrialists concerned, but upon immobile assets such as buildings, plant, machinery and the like, which, due to a number of circumstances into which I need not here enter, have gradually lost their earning capacity. In my opinion, therefore, the secret to success is to direct our future finance in such a manner that it is likely to secure more enterprise, and, therefore, wider markets which are likely to bring about an improvement in industry. But we must first know that we can find the necessary capital or credit to secure those wider markets, and at the same time improve the country's competitive power. I think there is too much confusion of thought, and that the bankers and industrial and trading community at large when talking upon these subjects are apt to confuse the terms "capital" and "credit." It seems to me that credit is merely the hand-maid of capital, and, therefore, it is not necessarily, in the first instance, capital that is so much required as the credit, for the purpose of liquifying that large capital at present, so to speak, frozen in gold, Government securities, Treasury Bills, etc., also in advances to industry. If this capital can be liquified and the outgoing Government expenditure such as we are now experiencing in out of work doles stopped, I think a great and first step would be made in assisting industry to help itself, and, as Mr. Goodenough said, "in placing it upon a sounder basis."

At the present moment, as I understand it, credit is expanded or contracted according to the movements of gold between the leading international monetary centres of the world. As the gold stocks of the Bank of England are reduced so credit is contracted, whilst as the gold increases so it is allowed to expand. Whilst the effectiveness of this system is regarded by bankers as amongst the most favourable features of our banking system, I do not believe that it can be so regarded when adapted to industry, nor do I think that the fact that we are able to transact a great volume of trade throughout the world with a relatively low resource of gold as compared with that of other countries—whilst it may prove the soundness of our monetary system and the efficiency of the Bank of England rate which can effect expansion and contraction as and when it may be required—is necessarily good for industry at large. Whilst it undoubtedly ensures a due relation between currency, credit and prices so far as our industrial earning capacity is concerned, in my opinion, it often works in an absolutely contrary direction to that desired. I mean by this that at bad times when credit should be extended to industry it is very frequently withheld, and *vice versa*. That is why I asked Mr. McKenna the question as to whether, in his opinion, as a rule credit was withdrawn in good times or bad. My experience has been that when times are bad, and when it is necessary, very often, for industry to have more credit, it can only obtain less. I, therefore, suggest that some machinery should be set up by which credit can be secured for our industries and imperial trade which is not totally dependent upon the policy of the Bank of England and the gold reserves. I suggest also that this credit should be dependent not necessarily upon the credit of the reserves of gold of the Bank of England, but upon the credit of the Empire as a whole, just as in fact the credit of the joint stock banks by their amalgamations averted disaster during the period of the War and reconstruction, by, so to speak, pooling their resources and falling back not upon the individual credit of the bank but upon the united credit, and that of the country behind them, rather than upon their individual strength. I claim that what was done in banking circles can be done in industry.

The issue of paper currency is one of the developments and signs of the successful working of these ideas. The idea of so-called imperial free trade, rationalisation of industry, and the like, is not new. I made suggestions in the same direction as far back as 1908, when I dealt with the exploitation of our imperial resources and our industries by the Germans, and again in 1917, when I suggested the incorporation of a British Trade Bank, the outcome of which was the British Trade Corporation, to which the late Mr. Bonar Law gave a Charter. Since then those ideas put forward in 1908 and again in 1916-17 have been strongly endorsed by industrialists such as Lord Melchett and many others. My view, therefore, is that they should now be resuscitated, and that a large industrial bank should in the first instance be formed in which each of the amalgamated joint stock banks and the Bank of England should co-operate and take a share; that the bank should be formed under Royal Charter, and should possess the moral and actual support of His Majesty's Government; that the bank should be conducted upon similar lines to the Industrial German Bank, which was so successful in building up German industry, firstly by competent, enterprising, financial men and bankers who should co-operate with a board of industrial directors, who again should have the assistance of technical experts in those industries into which the credit is directed. This end can be attained in the same manner as by Germany, by the establishment of an organisation similar to the Treuhand Gesellschaft, which, as everyone knows, was a body composed of financial, industrial and technical experts whose business it was to advise industrial banks upon the advances which they proposed to make, and the direction into which credit should be directed. Germany thereby fostered upon British capital her enterprise and industry, and established her technical schools and absorbed her unemployment. Later on, upon the same bases, she built up her export trade, which was fostered and increased until that country, inebriated with her own success, feared the forces of our finance and credit which had been directed into her industry through the channels of the industrial banks above mentioned, and, in my opinion, in her endeavours to prevent the control thus obtained by this country becoming too powerful, resorted to War.

I will not go any further than that. As far as I can see the whole question appears to me to be this, that no one can have any complaint against the banks—they have done all and more than they could have been expected to have done—but I feel, rightly or wrongly, that the machinery for directing finance into industry and for providing that enterprise which can be the only solution of the difficulties with which we are faced is not there. I say that until that machinery is set up it is perfectly useless for Lord Melchett, or Lord Rothermere, or Lord Beaverbrook, or any of those gentlemen to talk about the reorganisation of the Empire.

2613. *Chairman*: Let us examine your practical suggestion. Apparently your view is in favour of the establishment of an Industrial Bank, a new organisation.—I do not say it ought necessarily to be a new organisation, or if it is a new organisation, I do not see why it should in any way interfere with the operation of the present banking system.

2614. Quite. The banks are to go on as they have been, and carry on the orthodox banking business of the country, but in the present emergency you think that a new organisation is required to act in co-operation with the banks?—Exactly.

2615. What is this new body to be exactly? How is it to get its finance, and how it is to distribute it?—Assuming that an Industrial Bank were established in this country with a sufficient amount of capital—not 10 millions, but some hundreds of millions—two hundred millions——

2616. Where would you get the capital, first of all?—Partly from the banks who co-operate with it, partly from the public, and partly from the Government; in fact in my opinion a bank of that nature would get most of its finance from the public, because it would be very obvious that it would be of such great assistance to the Empire as a whole that most people who were anxious to develop the national resources and assist industry would subscribe to the shares of that bank. They would be only too happy to assist an organisation of that kind. I tell you this, Gentlemen, that unless something is done to-day to improve the state of things nothing can help us. In 50 years—I shall not be here to see it—we shall get secession of our colonies and possessions. What have we to give to the colonies to-day in return for anything they give us? Can we produce steel at a lower price than the Germans; can we supply cheap cotton goods; can we build a ship cheaper; can we do anything? We are working on at least 20 per cent. less efficiency than any other country in the world. Yet we talk about reorganising our Empire. I say, first form the foundations and then build upon them, and the foundation of everything that you are faced with is finance, and unless you get proper finance nothing that any of these gentlemen suggest will do any good.

2617. *Mr. Tulloch*: If we are working on 20 per cent. lower efficiency, in what way is finance going to improve that efficiency?—Because a factory is like a beehive; if you have a beehive and you starve those bees through the winter the bees will not produce any honey. Feed those bees, give them plenty of flowers in the summer to feed upon and the bees will work harder and produce plenty of honey. And so it is with human nature. If a man knows that a factory is full of work, that his employer is making money, that the business is prosperous, he comes to that factory with enthusiasm and energy and works harder. But if he comes to that factory listlessly, facing the prospect that he will be out of work next week and that his wife and children may be without food, he does not work with the same energy and he gets inefficient all round.

2618. I admit all that, but you put down that want of efficiency to the want of finance?—No, I put down that want of efficiency to the fact that we have allowed our industries to languish, and the reason that we have allowed our industries to languish, is that we have not had the proper system of finance to keep our younger industries flourishing. I say that the machinery has been wanting.

2619. Your suggestion is, as I understand it, to have a new company, perhaps a large company, which could examine propositions put to it and nurture the youthful attempts of industry?—Not necessarily the youthful attempts. Take, for instance, our steel industry. Let us assume that Sheffield supplies 3,000,000 tons of steel to-day. It is perfectly well known that Sheffield could supply, and Germany is supplying, another 3,000,000 tons. It is perfectly well known that Sheffield could, if she had the proper up-to-date machinery and necessary equipment, supply quite well that other 3,000,000 tons, if she could find the market. Why does she not do as Germany did? Germany did not wait. She said "there is a market here."

2620. You are referring to the need for further capital for established industry?—Quite.

2621. *Mr. McKenna*: Has your attention been called to the Agricultural Mortgage Corporation which was formed a couple of years ago? That was an institution in which the capital was supplied by the assistance of the banks, including, I think, the Bank of England, and by the assistance of the Government. It was an organisation, I think, rather on the lines of the one that you suggest. The purpose of that bank was confined to lending money to farmers for the purchase of their land. I understand you to suggest that a similar organisation might be formed now for the purpose of financing industry?—What I suggest is this. Take the picture of Germany; study the way that Germany built up her industries from 1864 to 1866 and again from 1870 till the late War. Study that picture, replace German industry by English industry, and you have the analogy complete.

2622. Your particular proposal for a bank would be on the lines of the Agricultural Bank?—I am not familiar with the Agricultural Bank, but I am familiar with the way that the German banks have assisted industry—in fact in other countries also, America and Belgium—and I think there is in the British Empire an enormous future for such an institution; in fact I think it is the very basis, as I said before, of all the problems that we have before us.

2623. It rather supports your idea that an institution of that kind has already been formed, although it was for a different purpose?—Was it successful?

2624. It is operating now.—Of course, as you will appreciate, as in any business or any organisation, everything will depend upon how such an institution is managed and the men who are at the head of it.

2625. I am not controverting your view; I am only reminding you that there is already an institution formed upon that basis?—I should like to touch upon one point that was raised, I think, by the Chairman when he asked whether Mr. Payton had had any actual experience of being told by the banker that the scarcity of money, or the high Bank Rate, precluded him from making a necessary advance. Now, I am sure you will admit, Mr. McKenna, that if the ordinary industrialist goes to the bank at the present moment and asks for an overdraft, or an increase of overdraft, the Manager generally tells him, "Very sorry, we have no more money to lend."

2626. That is not an admission I should make. It would be an assertion.—That has actually happened. The reply we get is, "We have no more money to lend."

2627. *Chairman*: I am rather puzzled to see how you are to finance this new organisation?—In my view, as I understand it, we have about £150,000,000 constantly locked up in gold. I am not a banker and I do not know whether the credit on that £150,000,000 is used or not, but in America I believe it is not. What I suggest is this, that the money that is now locked up in gold reserves, Treasury Bonds, various frozen assets, so to speak, should be liquified and the credit which that frozen capital will give directed into industry, and that the joint stock banks and the Bank of England should inflate —it is inflation—credit to a certain extent by rediscounting the paper of the Industrial Bank. That would be Bank paper and would have an international exchange value.

2628. *Mr. Brand*: And would that bank, if it were established in this country, make industry that is not profitable now profitable in the future?—No, it would not necessarily do that, but it would assist it to become profitable if there is a chance for it to become profitable. At present there is no chance for it to become profitable; it is simply languishing and going to destruction.

2629. How would it assist—by finding capital?—Finding credit.

2630. Credit or capital?—Well, there is rather a difference.

2631. *Mr. McKenna*: I take your case to be, that when a business is working to full capacity it reduces the cost of the unit of production, partly by the far greater efficiency with which the men work, and partly also by the fact that overhead charges are spread over a 100 per cent. production instead of 50 per cent.?—Quite. Take the statement that Mr. Payton made. He told you that after a certain figure is reached his gross profit becomes his net profit; therefore, if he can obtain more orders and increase his turnover, that net profit would become larger and larger, because he is turning out more goods.

2632. *Sir Thomas Allen*: With regard to this bank that you suggest, a sort of Imperial Trade Bank, it is based upon a manufacturer's production or capacity to produce, and not upon a gold standard at all?—No.

2633. You would eliminate the gold standard from its sphere?—Quite.

2634. And have a new currency for industry?—No, I do not think so. Supposing you had a trade bank which was managed by experienced bankers—that is to say, supposing you had upon the Board of that bank experienced bankers, and those bankers were again the directors of those banks who were discounting the paper of that bank—surely they would see that that bank did not go in for wildcat schemes and get into all sorts of difficulties. You would not want any gold standard to control the operations of that bank. The directors themselves in their self interest would control everything.

2635. That answers my point; that bank would not control reserves, but industry itself, or the production of industry?—The production of industry. All I suggest is, that some means should be found for infusing new blood firstly into enterprise, and, obviously, secondly into industry, and that the first object should be to resuscitate and to reorganise those industries in this country which are languishing and have reached such a position that they have nearly gone out of existence. How are we going to resuscitate our steel industry, how are we going to resuscitate our coal industry, if we have not the finance?

2636. I am trying to get at the basis of your security.—The basis of our security would be the industry itself.

2637. *Mr. Lubbock*: Is industry languishing because its equipment is out of date?—Undoubtedly.

2638. And fresh money is needed for re-equipment?—Undoubtedly. After all, what is the idea of this rationalisation?

2639. *Chairman*: How far may we take it that the views that you have been expressing to-day are representative of the views of the National Union of Manufacturers?—Only so far as Mr. Payton has told you. I do not think you must go further than that.

2640. I was wondering if this concrete suggestion of yours had the approval of the Union generally?—Well, I am not empowered to say that, but I think I can go so far as this, that, if there was any such idea, it would be favourably listened to; I think it would have the approval of the Union. I have spoken to various members upon it; I have never asked them to express an opinion upon it.

2641. *Mr. Bevin*: In this very important subject of finance and industry has not a Union like yours an executive, or a department of research, which has really studied this problem, and arrived at conclusions which they might have submitted to us, and which would represent the views of the National Union of Manufacturers?—I do not think they have.

2642. Have they a research body?—I think they have. Yes, they have a statistical body.

2643. Only statistical?—I do not think they have a research body; but I am entirely in sympathy with the views you express; I think the first thing to do would be to have an inquiry.

2644. We often hear of the National Union of Manufacturers and we see their views issued from time to time in the Press. I was trying to ascertain whether they did, really, as a Union representing the manufacturers of the country, spend much time or money in research, in really trying to help their own members in problems such as we have been discussing?—When you speak of research do you mean statistics and so forth?

2645. Research is not limited to statistics, is it? Take, for instance, the subject you are discussing this afternoon. Has that subject been submitted to any test by any body of experts?—No.

2646. None at all?—No.

2647. And the National Union of Manufacturers do not do anything like that?—I think there are very few bodies in this country who do. In fact, I do not know any.

2648. Do you not think that is one of your handicaps?—One of the many.

2649. Do you think that the manufacturers themselves by their own failure to understand the economic difficulties have been a very great contributory factor to our present troubles?—Absolutely. I do not think myself, if you were to seat 100 manufacturers round a table, two per cent. of them would really understand the financial problem that was before them.

2650. Or the economic problem?—Or the economic problem.

2651. That is a very great handicap in a modern competitive world?—That is one of the greatest handicaps we have to face, in competing with Germany, Belgium, France, and such countries as those.

2652. It seems to me the first thing we should go to the State for is an educational grant, is it not, for the manufacturers?—No, I do not think so; because you must not forget that Germany was educating her manufacturers at the same time as she was enlarging her manufacture.

2653. *Mr. Tulloch*: Would not a department of research in your institution be of tremendous importance? I am following what is in Mr. Bevin's mind in asking this question. It seems to me you are lacking somewhat materially in that respect?—Well, you see, we have research departments in other organisations, such as the British Electrical Manufacturers' Association, of which I am a member; there they have a large research department; in the National Union we have a number of various manufacturers, small and large, they vary very much.

2654. The economic aspect of industry is extraordinarily important?—Oh, I agree, but it is very difficult.

2655. To formulate something?—To formulate something.

2656. *Chairman*: It only remains for us to thank you?—May I, before leaving, quote these extracts. I noticed in *The Birmingham Mail* of the 25th February there were questions asked in the House of Commons with regard to the placing of Indian contracts for railway rolling-stock, and Mr. Wedgwood Benn replied. Then, Mr. Kirkwood said, " All I asked was that the Minister should use his influence in order to see that we get a fair crack of the whip. I have been in Germany and I have seen Krupps works at Essen making locomotives for India while our people here were idle." Now, that is a point that I should like to raise. We raise an Indian Loan. I know the difficulties that one meets with. We cannot force or even ask India to place the orders necessarily in this country. All I want to emphasise is this, that that money raised for India goes to support foreign industry and I think that if some institution such as I have outlined here were established, and the force of that institution were brought to bear upon the manufacturers of other countries, in the interest of the industrialists of this country, you would find we would be able to influence some of those orders this way. Then in the cotton industry—this is from *The Times* of the 22nd February—Mr. F. Holroyd, President of the Master Spinners' Federation, at the annual general meeting of that body made the point " that the spinning section of the industry was already cut to the bone, but he believed that in the branches of the industry subsequent to spinning there lay a field for exploration which, if thoroughly examined, might reveal possibilities of hastening the return of more profitable trading. There was enormous scope for reorganisation in the manufacturing section where he believed the cost of weaving was unnecessarily high." Then he says this: " To what extent the decline of production and the continued loss of capital are due to the increase of public debt and taxation it is impossible to say, but no one can deny it is a fact that they monopolise the credit structure of the country. The debts of the country can only be paid off by a large increase in production and the regaining of lost markets. To achieve that end " —this is my point—" it is necessary that we should have a more elastic credit system." *Chairman*: We will take that as your last admonition. *Witness*: That is my last admonition.

(*The Witness withdrew.*)

(*Adjourned till to-morrow, Friday, 28th February,* 1930, *at* 4.30 *p.m.*)

FIFTEENTH DAY.

Friday, 7th March, 1930.

Present:

The Rt. Hon. LORD MACMILLAN, *Chairman.*

Sir THOMAS ALLEN.
Mr. ERNEST BEVIN.
The Rt. Hon. LORD BRADBURY, G.C.B.
The Hon. R. H. BRAND, C.M.G.
Professor T. E. GREGORY, D.Sc.
Mr. J. M. KEYNES, C.B.
Mr. LENNOX B. LEE.
Mr. CECIL LUBBOCK.
The Rt. Hon. REGINALD McKENNA.
Mr. J. T. WALTON NEWBOLD.
Sir WALTER RAINE.
Mr. J. FRATER TAYLOR.
Mr. A. A. G. TULLOCH.

Sir FREDERICK LEITH-ROSS, K.C.M.G., C.B.
Mr. G. ISMAY, *Secretary.*

Mr. George J. Scott, Treasurer of the Bank of Scotland, and Sir Alexander K. Wright, K.B.E., D.L., General Manager and a Director of the Royal Bank of Scotland, called and examined.

STATEMENT OF EVIDENCE SUBMITTED ON BEHALF OF THE SCOTTISH BANKS.

1. *Information as to the extent of the statistical information at present laid before shareholders and the public and the views of the banks upon the desirability or expediency of issuing a wider survey of banking activities.*

The banks send their Annual Report and Balance Sheet giving full details of their assets and liabilities to their shareholders and the Press. At the annual meetings of the shareholders, it is customary for the Chairman to deal exhaustively with the position of the bank and with its operations throughout the year. At the same time a review of trade, industry and finance for the same period is usually given.

In the case of those banks to which it applies half-yearly statements of the assets and liabilities are printed and exhibited in all the offices of the banks.

Particulars of the note circulation of each of the banks appear in the " Edinburgh Gazette " in consecutive periods of four weeks each.

The Managers do not think it desirable or expedient to provide further information, and no wish for such has been expressed by either the Shareholders or the public.

2. *In cases in which a bank is affiliated to or owned by an English bank, the method by which the Directors are appointed and the extent of their control in regard to Scottish business.*

Four of the eight banks in Scotland are independent: they are not affiliated to, or owned by any other bank. The other four banks are affiliated to English banks. In the case of the latter four banks they state that their directors are appointed in the usual way by the shareholders (the holding bank), and that their directors are entirely free from the control of the holding bank: the administration of the banks being left in the hands of the Scottish directorate.

3. *The extent of, or limitations on, competition between joint stock banks; the circumstances which determine the opening of new branches; the views of the bank on amalgamations.*

(*a*) There is free competition between the joint stock banks in Scotland, limited only by:—

(i) A Table of Charges, which provides for uniformity in the rates of interest charged and allowed, and the commission exigible on a variety of transactions.

(ii) Agreements and Understandings between the Scottish banks which enable a uniform procedure to be adopted with regard to a considerable portion of the banking business in Scotland. In practice it is found that the above arrangements do not in any way restrict competition for business, which is of the keenest nature.

The Table of Charges and the Agreements do not apply to the business of the Scottish banks in London or abroad.

(*b*) The circumstances which receive consideration with regard to the opening of new branches are *inter alia* the requirements of a particular district or town for banking facilities, the linking up of the branches of a bank in a particular area, the protection of an existing branch in the area, and the possibilities for development of the bank's business.

(*c*) The independent banks are of opinion that amalgamations with any of "The big five" would be detrimental to the interests of the former and would be of no benefit to the public. Their view is that there is much to be said in favour of banks of moderate size, where the management can have knowledge of the details of the business and of the staff, and keep in touch personally with the customers.

4. *The principles on which the assets of the bank are distributed, with particular reference to the ratio of cash in hand and at call to liabilities, and the limits of fluctuation in other categories of assets.*

The assets of the banks are distributed on what may be termed the normal lines. On the average the cash and money at call and short notice are round about 25 per cent. of the deposits. Whilst there are fluctuations in the ordinary way of business in the ratios of the different assets, these are of a temporary nature. The Scottish banks aim at a thoroughly liquid condition. The advances, which are well-spread over the whole country, are usually 50-55 per cent. of the deposits. The investments are chiefly long and short-dated securities of the British Government, but include also Colonial Government and similar stocks. Bank bills and Treasury Bills are held to supplement the money on the market.

5. *Information as to discounts and advances, with particular reference to*

(a) *the extent of the assistance given to trade and commerce and to other classes of customers.*

It is the practice of the banks to give assistance to trade and commerce and to other classes of customers to the fullest extent consistent with sound banking principles. The advances, as stated in Section 4, are usually 50-55 per cent. of the deposits.

(b) *the considerations which govern distribution between discounts and advances.*

There is no recognised ratio of distribution between discounts and advances. The volume of discounts depends on the bills offered by customers; but this item is sometimes augmented by "fine" trade bills bought on the London discount market. In pre-war days all the banks bought bills freely in this way, but during and since the War the comparative scarcity of the "fine" bill, and the continuous supply of Treasury Bills, have materially altered the nature of the banks' portfolios. The ordinary trade bill is only used nowadays to a very limited extent.

(c) *the practice in regard to granting unsecured loans and to discounting finance bills.*

Unsecured loans of a seasonal or temporary nature and overdrafts are given to customers whose statement of affairs or balance sheet and personal character appear to justify such facilities. In Scotland where the Agents or Managers of the branches have opportunities for knowing their customers personally, the experience of the banks is that unsecured temporary advances may be fairly freely given in proportion to the means of the customer, and, at the larger branches, the Agent is allowed considerable latitude in this respect.

Finance bills so far as the Scottish banks are concerned are on a very limited scale. They are usually for shipbuilders who secure themselves by a mortgage of the vessel.

(d) *the procedure for the consideration of applications for financial accommodation.*

Applications are made through the Branch Agents or Managers who submit a form giving details with regard to the customers, their means, their business, their character, the object of the advance, the security, if any, and the source and time of repayment. The applications come before the Banks' Head Office Executive, and, if deemed suitable for consideration by the Board, are submitted to the Directors for their decision, accompanied by the General Manager's recommendation or otherwise. Where there is urgency the Executive deal with the application at once.

(e) *the determination of the relative amount of accommodation to be given at different branches.*

It is not the practice of the banks to limit the accommodation given at the different branches. The facilities allowed have no reference to the deposits received at the particular offices. There has been no difficulty in meeting all the requirements of the banks' customers wherever located. The virtue of the branch system is that deposits are gathered in all over the country and mobilised and distributed to the best advantage of trade wherever required.

6. *The extent to which bills of exchange figure in Scottish business now in comparison with recent years and the views of the banks on the advantages of an increased use of bills.*

The tendency is for the trade bill to be less used. Most banks find that bills are being more superseded by the system of credit. Many customers prefer to pay cash for the sake of the trade discount, and will not accept bills. The growth of limited companies appears to have been against the extension of the use of bills.

This seems regrettable as the bill was a convenient document of debt between seller and purchaser. It fixed a specific date for payment, and the customer was able to obtain credit from the bank on the bill discounted, which gave the bank a document bearing two or more names for the obligation.

7. *The considerations which lead the bank to decide either that a restriction of credit is desirable or that an increase is permissible and the process by which the decision is carried into effect.*

The question of restriction of credit seldom arises. If a customer is inclined to over-trade, the bank will naturally restrict the credit which it allows, and in the same way if customers are too much interested in the activities of the Stock Exchange, it is sometimes necessary to ask Branch Managers to limit the facilities given, even though apparently well-secured. There is no necessity for restriction of credit for lack of funds available.

At the present time, with the wide-spread existing depression, there are unfortunately cases where, although the advances may be quite safe, they cannot be called up or asked to be reduced without real injury to the customers, and in such cases the banks endeavour to deal as sympathetically as possible with them.

8. *The practice of the bank in regard to the grant of facilities to industry for purposes which may require credit over a short period of years; for covering working deficits; and for industrial reorganisation generally.*

The general practice is not to give advances for more than one year at a time. Even where it is understood that the advances will be required for some years, it is stipulated that they will come up for reconsideration each year, and continuation will depend on the circumstances then ruling.

The banks prefer reduction each year, but very often, from bad agricultural seasons or other reasons, that is impossible, and in such cases a good deal of latitude is allowed.

Where industry has become embarrassed, the policy of the banks is to do their best to assist any reasonable scheme of reorganisatioon.

9. *Views on the banking and credit system generally.*

In Scotland the existing banking system appears to have worked quite satisfactorily so far as the public and the customers of the banks are concerned. The progressive nature of the banking advance figures shows that the banks are doing their best to help trade and industry in every way consistent with sound principles of banking, and the personal relation existing between the banks and their customers enables facilities to be given wherever these are justified.

2657. *Chairman*: Gentlemen, this afternoon we have the advantage of the attendance of Mr. Scott, of the Bank of Scotland, and Sir Alexander Wright, of the Royal Bank of Scotland. I think you have read the Terms of Reference under which we are sitting. They are, as you will appreciate, somewhat wide in their scope, but in the case of the representatives of other banks who have been so good as to come here we have confined ourselves largely to asking questions about the methods by which the distribution of credit has been carried on by the banks. We have not asked the banks to go into some of the more fundamental questions behind that, but we have dealt in the main with the system on which they act in financing industry, and with some of the other topics connected with that problem. As regards the Scottish banks, we might just get a few details first of all. There are, I think, now eight banks in Scotland, are there not?—(*Sir Alexander Wright*): Yes.

2658. I think the Bank of Scotland, the Royal Bank, the Commercial Bank, and the Union Bank, remain independent, and unassociated with any English bank?—Yes.

2659. On the other hand, the Clydesdale and the North of Scotland Banks have been associated with the Midland Bank?—Yes.

2660. The National Bank of Scotland is associated with Lloyds, and the British Linen Bank with Barclays?—Yes.

2661. We might take up some topics in the order with which you have dealt with them in the notes of evidence handed in. One of the subjects we have discussed has been how far the information given by the banks to the public in their published accounts enables a satisfactory appreciation to be formed of the financial position. How far in Scotland have the banks adopted the recommendations of the Cunliffe Committee in that respect?—(*Sir Alexander Wright.*) I think, broadly speaking, to the full extent. (*Mr. Scott.*) Almost entirely.

2662. Do you give as much information or more information than the banks in England give in their accounts?—Practically the same as a rule; except, perhaps, on one or two items where we really are so little affected that segregation is not called for. The amounts of certain items involved in Scotland are comparatively small; they do not, I think, call, really, for separation.

2663. It is not necessary to carry the analysis further in the Scottish accounts?—I do not think so, unless, perhaps, in one or two cases. My candid opinion is that the balance sheets of the Scottish banks are so full in most cases that you can hardly ask for any more information from us.

2664. *Professor Gregory*: You do not publish monthly figures on the lines of the English banks?—No. It would serve no purpose.

2665. I should like to explore that further. Upon what grounds do you base that opinion?—I do not think it would serve any purpose, so far as the public are concerned, to see those figures. The general public are not sufficiently interested, and the temporary seasonal and other fluctuations from month to month would be, perhaps, a little misleading. The figures vary, of course, in certain items, but I do not think that the public would benefit in any way by fuller information with regard to the position of the banks being given every month. We have no objection, so far as the banks are concerned, but I do not see that anything would be gained by it.

2666. *Mr. Keynes*: The information would be wanted for the trained observer rather than for the general public. Monthly figures are available for England, and great importance is attached to them; they are watched very closely. In America, far more detailed information is supplied. If you are to attempt any kind of scientific analysis of the situation you want the data as complete as possible. It is very hard to wait till the end of the year. I would rather put the point in this way—is any purpose served by concealment?—There is no concealment. The only thing is, that the banks that you are dealing with in Scotland are not large enough to call for the publication of detailed information from month to month.

2667. It might do good to the public, and could do the banks no harm. I very often deal with the banks' figures. I have a very crude way of dealing with Scotland; I add ten per cent. to the English figures; but it is rather absurd that I should have to do that. It is much better to have the actual figures for Scotland?—(*Sir Alexander Wright.*) We make returns, of course. (*Mr. Scott.*) I think Mr. Keynes is really suggesting a monthly balance sheet. (*Mr. Keynes.*) Exactly similar to that supplied by the clearing banks at present.

2668. *Mr. Tulloch*: Do you see any objection from your point of view to supplying the figures month by month, Mr. Scott?—None whatever.

2669. *Chairman*: At any rate, you do not think that any detriment would be suffered by the Scottish banks if they gave additional information; your only objection is that it might mislead the untrained members of the public?—I would rather put it that I do not see any advantage, even to the trained observer of statistics. Looking at these figures month by month, he would see, of course, certain seasonal and other fluctuations, but I do not think they are of sufficient moment to make publication month by month really of much actual value.

2670. Would the compilation of those figures give you any additional work?—No; as a matter of fact our Board have a detailed balance sheet every week.

2671. The figures are available, anyhow?—Yes.

2672. *Mr. Keynes*: In the case of the English banks the monthly figures are worth a great deal more than the figures at the end of the year. The end of the year is subject to very disturbing influences, and when one comes to draw conclusions one nearly always prefers to take the monthly statements rather than the statement at the end of the year. Experience shows that the statement at the end of the year differs very materially from the monthly statement?—(*Sir Alexander Wright.*) It is a curious fact that only two of the Scottish banks balance at 31st December; the others take their balance at different dates throughout the year; so the public are always getting doses of information.

2673. That makes it worse, because you cannot get any aggregate figures?—It is a fact.

2674. *Mr. McKenna*: Do you understand in Scotland what is meant by the term "window-dressing"?—(*Mr. Scott.*) Very little.

2675. The phrase is unknown to you?—We have heard of it as taking place elsewhere.

2676. Is it practised in Scotland at all?—One cannot say it is a "practice" there.

2677. Not at all?—I should think, if at all, to a very small extent. (*Sir Alexander Wright.*) It is not a Scottish expression.

2678. I wanted to know if you used the expression?—No. It is not in our vocabulary!

2679. You understand what I mean by the expression "window-dressing"?—(*Mr. Scott.*) Yes.

2680. Are the figures which the Scottish banks publish those which might be the subject of "window-dressing"?—Only I should think in a very mild form.

2681. *Mr. Keynes*: Your average cash, for example, throughout the year, would be nearly the same as you publish in your balance sheet?—Yes.

2682. *Mr. McKenna*: You practically do not "window-dress" in Scotland?—We practically do not so far as I know.

2683. I was not asking the question in a hostile sense?—I quite understand that.

2684. *Professor Gregory*: I take it that the Scottish banks would have no objection to publishing monthly figures if on public grounds it were thought desirable to do so?—I do not think so. I do not see the slightest reason why any bank should object.

2685. You doubt the utility, but you do not see any reason why they should object?—That is so. I do not see any reason why the banks should not give them if desired.

2686. *Chairman*: It would not entail any additional work?—No. (*Sir Alexander Wright.*) There has never been any request for that kind of information, as far as I know.

2687. *Professor Gregory*: Would it be possible for you to publish your figures on a uniform basis with the English ones? Could you follow the headings proposed by the Cunliffe Committee?—(*Mr. Scott.*) As a matter of fact the deviation is slight. In most of the banks it only refers to one or two minor items, so there would be no difficulty. Of course, there are certain differences in the balance sheets. All the Scottish banks do not issue a balance sheet exactly on the same lines. One bank may combine certain figures which are carefully segregated by another institution; that is to say, in the case of some of the banks in Scotland their balance sheet is slightly fuller than the balance sheets of others.

2688. That is the case in this country also. It does not make any difficulty. It is merely a case of getting comparable figures as between England and Scotland, so that one does not have this awful job of adding them together and then find that one has added the wrong items together?—At any rate there is no difficulty in the case of a bank which at present combines certain items dividing them so as to give the information on the lines desired.

2689. *Mr. Tulloch*: Do you all take your first item as cash, simply, or do some of you combine it with something else?—Cash, usually, is just "Cash", and balance at the Bank of England.

2690. It stands alone as a separate item in all cases, does it?—It does with most banks, but one or two banks combine their "Market" money with Cash and Bank Balances.

2691. It is not combined with money at call?—(*Sir Alexander Wright.*) Not in the case of our bank. (*Mr. Scott.*) It is in two cases, I think.

2692. *Mr. Keynes*: But it is with cash at the Bank of England?—Most of the banks give what they call "cash" with the Bank of England balance in one item. Then documents in transit, balances with other banks, and correspondents, and after that they state money at call and short notice.

2693. In the case of the clearing banks, they have agreed to let us have separately their actual cash as distinct from their balances at the Bank of England, in order that we may see what part of the currency note issue is at the Bank of England. If those figures were missing for Scotland it would alter the whole story, if we were seeking to determine the notes in circulation?—The Bank of England notes held by the Scottish banks form most of their "Cash" holdings.

2694. *Chairman*: I think you and Mr. Scott, Sir Alexander, represent two of the independent banks in Scotland?—(*Sir Alexander Wright.*) Yes.

2695. How far do you think the system of affiliation of the Scottish banks to English banks is of public advantage? If the question is an embarassing one for you I do not press it, as your banks have not affiliated?—In present company, yes.

2696. I think we might keep it on broad lines. No doubt you have both considered the question?—Yes. (*Mr. Scott.*) Yes.

2697. As you know, there have been very extensive amalgamations in England which have resulted in the creation of the five big banks. Do you find the basis of your bank sufficiently broad from the point of view of the credit which you are able to give?—(*Sir Alexander Wright.*) Yes.

2698. Without the assistance of England?—Yes; we have no difficulty.

2699. *Professor Gregory*: That is in part due to the fact, is it not, that you have London offices, which enable you to tap the London money market to some extent?—We have London offices. We do not "tap the market"; we supply it with part of its funds.

2700. As a matter of fact, does a Scottish bank, which is not affiliated to an English bank, ever borrow in London, or are you lenders?—Lenders; very much so.

2701. You all have branches in London under the charge of a London manager?—Yes.

2702. And these keep you in touch with the money market here?—Yes.

2703. *Mr. Tulloch*: And you all use your balance directly on the market without placing it with an agent, do you not?—Yes, and have done so for many years.

2704. *Chairman*: Amongst the eight banks of Scotland how far have you any common policy? The interest allowed on deposit receipts is the same for you all, is it not?—(*Mr. Scott.*) Yes.

2705. It follows the Bank Rate?—It is almost always the same as the London deposit rate; it very seldom varies from that.

2706. To what extent is there co-operation as well as competition amongst the banks? Have you any means of meeting in conference with each other?—(*Sir Alexander Wright.*) We meet regularly.

2707. Is that a formal organisation or informal?—It is a committee of the general managers, Mr. Scott being the convener, as the Treasurer of the

Bank of Scotland, the senior bank. We meet quarterly, and oftener if necessary.

2708. And discuss matters of general policy?—Particularly with regard to interest, charges, commissions, and subjects of common concern. We have quite a number of agreements about policy.

2709. Do you find that useful, Sir Alexander?—Yes, it is very useful. If this is what you are coming to, it does not in the least interfere with the keenness of our competition.

2710. I quite see that. On the other hand, it may avoid awkward decisions of various kinds?—Yes.

2711. *Professor Gregory*: In your charges do you generally follow the Bank Rate up and down?—Yes, but not always.

2712. *Mr. Keynes*: I see in your statement of evidence you say there is a Table of Charges. Would it be possible to supply us with that Table?—Yes.

2713. You also say there are "Agreements and Understandings." Would it be possible to give them, not in full, but summarised?—They are in print. We have them printed for our own convenience.

2714. Could we have a copy of them?—Certainly, on the footing that they are to be regarded as confidential.

2715. It would be helpful, because there is nothing analogous, as far as we know, in England?—One of the reasons, I think, is that we do not charge commission on turnover.

2716. *Chairman*: You never make a charge on the customer's account?—No, in Scotland we never charge for keeping an account.

2717. *Mr. Tulloch*: With regard to this Table of Charges, and the Agreements and Understandings, I do not understand how it is that they do not limit competition amongst the banks?—This is only as regards charges for interest and commission on cashing cheques and issuing drafts. The real competition is in the business done.

2718. *Chairman*: You agree on a tariff, and there is free competition to get any business you can on the tariff?—That is so.

2719. *Mr. Brand*: Would the rates of interest charged on advances be always the same?—Yes.

2720. For both small and big advances?—Yes.

2721. Supposing it were a question of giving one company an advance of £50,000 and another company an advance of £5,000, would the rate charged be always the same?—Yes.

2722. *Chairman*: That is rather remarkable?—Yes. We are very generous.

2723. *Mr. Brand*: Even if the security were totally different?—We have a secured rate and an unsecured rate.

2724. *Chairman*: But you do not discriminate amongst your customers?—No.

2725. What would your normal rate be on advances—half per cent. over Bank Rate?—(*Mr. Scott.*) Secured advances are usually 1 per cent. over Bank Rate and unsecured 1½ per cent. over it. But when Bank Rate is 5 per cent. or more our rates would generally be only ½ per cent. and 1 per cent. respectively over Bank Rate. When Bank Rate goes very low we do not go below 4½ per cent. for the secured account.

2726. *Mr. Tulloch*: You might have a very valued customer to whom you might advance without security; you might have another customer whose account was nothing like so satisfactory in the matter of risk; if you were lending would you charge them both the same rate, notwithstanding that the accounts in character of risk might be totally different?—(*Sir Alexander Wright.*) We are not under obligation to each other to do so. Our rates are minimum rates.

2727. That would give you a certain amount of free scope?—At the same time, we are generous. We regard our business as that of banking, and we do not take advantage of our customers in the matter of rates to any extent.

2728. No, but you would if you had rather a risky account; you would be inclined to charge the unsecured rate?—(*Mr. Scott.*) I think it is practically unknown to discriminate between one customer and another.

2729. *Professor Gregory*: You would ration him more severely?—Yes. (*Sir Alexander Wright.*) That is a different question altogether. (*Mr. Scott.*) There is one concession that we might mention which is allowed in some cases where we have not security and the customer is charged only the secured rate; there is a certain discretionary power left to the banks to charge only that secured rate where the importance of the account justifies it.

2730. *Mr. Brand*: That is in the case of a very big company?—That is in the case which you have mentioned, where you have a very important customer who is quite good for running an overdraft. There is a certain latitude or discretionary power allowed to all the banks. That is agreed. (*Sir Alexander Wright.*) That is to say, they can treat an unsecured advance on the same footing as a secured advance in point of rate.

2731. *Mr. Keynes*: In the case of charges which vary with the Bank Rate have you provision for a minimum of five per cent.?—We do not run that way in Scotland. In Scotland we have our cash credit rate, which is a secured rate, and our overdraft rate, which is an unsecured rate.

2732. If Bank Rate went down still further, would trade continue to benefit?—When we come to a certain minimum rate we do not go beyond that.

2733. *Chairman*: You have a stop figure?—Yes.

2734. *Mr. Tulloch*: Would that be 4½ per cent. or 5 per cent.?—(*Mr. Scott.*) 4½ per cent. (*Sir Alexander Wright.*) We have had little experience of these low rates in recent times, but I have no doubt we would do our best to meet the case.

2735. *Mr. Keynes*: It is becoming more important. In these depressed times it may be very helpful to trade to have cheap money. I was wondering how far banking practice would let business have the benefit of a reduction of Bank Rate below a certain figure?—I think our practice in the past would stand the test of that. (*Mr. Scott.*) We have only gone down to 4½ per cent. once over a long period for secured accounts. With our ordinary balances in Scotland we do not work on the system of loan account. Where a man takes an advance or a loan and prepays his interest he gets that at what we call the bill rate, which is a special rate of a finer kind than the current account rate; he prepays his interest and gets that finer rate. That rate goes down very much in relation to the Bank of England rate. We do not follow Bank Rate down to an extreme with our Deposit Rate.

2736. I was not thinking so much of that; I was thinking of the rate you charge, not the rate you allow?—(*Sir Alexander Wright.*) Practically all our trading advances are on fluctuating balances. We do not give them as fixed loans. We know all about that in our London business. In Scotland, as a rule, the customer has the advantage of paying in from day to day and lessening the interest charge according to what he requires in his business. The cash credit system of Scotland, which is 200 years old, and was started by the Royal Bank of Scotland, has been a tremendous boon to trade. Under that system the interest is charged only on the balance required by the customer from day to day.

2737. *Chairman*: That dates back to the time when probably the only asset we had in Scotland was land, and banks took a form of mortgage which I do not think was available in England and which enabled you to take security for a fluctuating sum. You could have a secured account with a fluctuating sum?—Yes.

2738. *Professor Gregory*: What do you call a "cash credit"? Is that secured by guarantee?—Yes. It used in the old days (apart from heritable property as indicated by the chairman) to be secured in effect by personal guarantee; a cash credit bond was taken by the principal debtor, as the borrower was called, and his co-obligants (the guarantors) narrating that a credit to a certain amount had been allowed and applying this joint and several obligation to all sums due upon the account from time to time up to a certain amount and interest. That is one of the chief characteristics of our system in Scotland—the cash credit, a principle which has spread all over the world.

2739. Of course, personal guarantee does not play the same rôle in the cash credit system as in the days of Adam Smith?—No; but it still obtains to a very considerable extent. We now allow the cash credit system in respect of all sorts of security. You might have a composite security for the one credit—a personal guarantee, a life policy, a customer's works. We require a conveyance in Scotland, where heritable property is taken.

2740. *Chairman*: Debentures, I suppose?—That is so; they might if specifically secured form part of the cover. The cash credit system runs through the whole.

2741. That is a tremendous advantage?—A tremendous advantage to the debtor.

2742. He gets as much or as little as he wants?—And he pays only for what he wants from day to day.

2743. *Professor Gregory*: When a customer has sums to his credit on current account do you allow him interest?—No.

2744. *Chairman*: There was a time when interest was given on monthly balances?—Yes. Curiously enough it has recently been re-introduced in reference to small deposit accounts.

2745. On the other hand, the deposit receipt system in Scotland has probably developed more than it has in England, has it not?—Yes, much more.

2746. It is a very popular form of document?—Very popular. You pass it across the counter endorsed and you can uplift the principal and interest, or you can renew it for the same or a different amount. The interest fluctuates—they are published rates—according to the Bank Rate.

2747. *Professor Gregory*: Do you find as a matter of experience that your time deposits stay with you for long periods? (*Chairman.*) You get no interest unless it is in a month?—That is right.

2748. *Chairman*: That, you can imagine, has a very considerable influence on the Scottish character. —The Scottish character comes out in our banking system at every point.

2749. *Professor Gregory*: I was wondering whether the savings deposited remained with the banks for a very short period, and whether you were prepared to give a special fixed rate for six months' deposit? —(*Mr. Scott.*) We only have the system for giving a special rate for a fixed period in our London offices. We have it to a limited extent in Scotland, but the deposits there have to be £20,000 or upwards. Of course, the London offices of the Scottish banks are not controlled by these agreements.

2750. *Chairman*: With regard to these agreements, are they confidential documents, or could they be included in our Report?—I do not think that you would serve any useful purpose by publishing them *in extenso*. They are very long, and are confidential arrangements.

2751. Perhaps you might make them available to us—a description might be put in?—(*Sir Alexander Wright.*) We might give you a summary of them, and the ideas running through them.

2752. Deposits are to some extent, of course, an indication of the industrial position; have you found that during the recent period of depression your deposit accounts have gone up, that there has been less money in use and more on deposit?—They keep very steady. It is wonderful how steady our deposits keep.

2753. They do not seem to reflect the industrial position and unemployment?—Of course we are so widely diffused over the country that we experience the benefit that when money is required in one district it may not be needed in another.

2754. Of course, when there is no outlet, when money cannot be usefully used, there is a tendency for it to be dammed up?—(*Mr. Scott.*) We are more frequently asked through our London offices for quotations for special deposits. That is to say, Scottish companies which have London accounts increase their special deposits. These have a tendency, naturally, to increase if the companies cannot use their money. (*Sir Alexander Wright.*) That is the class of deposit that I think Lord Macmillan means; the case of those industrial concerns which do not require all their reserves in their business.

2755. *Professor Gregory*: Do you find there is a tendency at the moment for customers to transfer their money to deposit in London?—Yes.

2756. *Sir Walter Raine*: Is there any period of the year when you have to borrow from England?—(*Mr. Scott.*) We do not borrow from England at all.

2757. It is a well known fact in this country, at any rate, that money passes round to different centres. Does a time come in the course of the year when you find it necessary to borrow from England?—No. We have no business in England, except what we have at our London offices. We are lending there constantly, all of us, our working reserves. All the Scottish banks lend on the London money market and to customers far more than they get on deposit in London.

2758. *Chairman*: Scotland is a creditor nation?—Yes; decidedly.

2759. *Mr. Brand*: Do your London branches make advances, or are all advances made in Scotland? Do the London branches make large advances?—Yes; they have a very large lending business.

2760. To English manufacturing industry?—Yes, to such customers.

2761. *Chairman*: That raises a very important question. So far as financing industry in Scotland itself in concerned, would you just tell us what are your relations to the Scottish industries and how far you have been able to meet their requirements?—(*Sir Alexander Wright.*) To the fullest extent, I should say, of any demand made upon us. (*Mr. Scott.*) There is no difficulty whatever, so far as we know, in any of the Scottish banks providing all that is required for its customers; in fact, until recent years the difficulty really was to lend our money.

2762. Have you never found that you were so much lent that you could not entertain any more applications?—(*Sir Alexander Wright.*) No, we have never had to refuse. Of course, our figures are getting pretty well up to the recognised ratio.

2763. What is the ratio you aim at in the Scottish banks?—(*Mr. Scott.*) Sometimes between 50 and 55 per cent. is regarded, in the same way as in the English banks, a working proportion.

2764. Take the Bank of Scotland—what has been your ratio recently?—Our advances just now are £17,000,000, and our deposits are £32,000,000. If it will assist, I have a note of the deposits of the eight banks in Scotland according to the last balance-sheets. They come to £250,000,000, and the advances are £129,000,000; so I think that confirms what I say.

2765. Does not that look as if you had lent just about as much as you would care to lend?—Of course some of the purposes for which loans are made are more or less temporary; that is to say, certain of our advances will be voluntarily paid off by the people. We have no trouble with regard to the question of advances.

2766. If you had a proposition put before you which you thought was meritorious and which you desired to assist, would you be able to call in money? —Without any trouble, because in addition to Treasury Bills held as short investments which can be realised at any time the whole of our investments—£11,000,000—with the exception of under

£200,000, in Colonial Government and other good stocks realisable at once, are British Government securities which we can sell at any time.

2767. Would you in practice give a preference to an industrial advance over a finance advance?—Yes; but as a matter of fact "finance" comes very little within our experience.

2768. Are most of your customers people who are engaged in industry or business?—Yes, but I might qualify that: I think probably all the banks at the present moment, and for some years past, have made a very substantial amount of their advances against Stock Exchange securities. That, I think, is the inevitable consequence of so many people having become interested in investment, and when they want money it may be for more or less speculative purposes, to make a little money on their investment, or it may be that stocks are given as security to the bank instead of going to their friends and saying: "Will you give your guarantee to the bank?" They pledge their investments.

2769. What proportion of your present advances represents advances to industry and business, and what percentage represents advances for Stock Exchange transactions?—I can give you our own figures; I cannot speak for other banks, because the statistics which the Committee is asking for are not yet ready. My own figures the other day, for advances for investment and on Stock Exchange securities—of course, I do not know the purpose of a great deal of those advances, what the people intend to do with the money; much of it would be for trade—were nearly 25 per cent. of the total advances.

2770. And the balance of 75 per cent.?—That was distributed over all kinds of advances, for example, produce importers, grain, etc., 8 per cent.; agriculture and Live Stock Marts, 8 per cent.; and so on, distillers and brewers, fishing, engineering, shipping, textile industry, etc., etc.

2771. *Mr. Newbold*: Would you be willing to let us have that analysis in greater detail?—I have not the slightest objection to any member of the Committee having it.

2772. *Mr. Keynes*: What is the percentage for distillers?—I can give you that. Distillers, brewers, etc., at the date of this Return, 21st January, 1.5 per cent.

2773. *Mr. Tulloch*: For the purpose of your ratio, Mr. Scott, your advances do not include bills?—No. As a matter of fact, trade bills, with us, at any rate, are quite negligible. Our experience for the last ten years is that the use of bills is going steadily downward.

2774. *Mr. Brand*: You refer to internal bills?—Yes.

2775. *Mr. Frater Taylor*: You do not include finance bills for the shipbuilding industry in that list?—Not in this list; but with us at the present moment £200,000-£300,000 would be the total. There is nothing in it.

2776. *Chairman*: I suppose you do not see very many foreign bills, do you?—We collect documentary drafts on parties in foreign countries for our customers, and, on the other hand, we accept and negotiate for our customers documentary drafts drawn abroad for jute and other articles, the purchasers being our customers. The total is not serious and the business is seasonal. (*Sir Alexander Wright.*) We buy bills in the London discount market—first-class bills.

2777. Do you find the supply is getting short?—Well, it is not nearly so good as it used to be.

2778. *Professor Gregory*: I suppose you get a certain amount of bills drawn on Glasgow merchants?—Yes.

2779. Would they be accepted by you in London?—Yes, generally. (*Mr. Scott.*) You mean foreign bills?

2780. Yes; foreign bills drawn on Scottish houses?—(*Sir Alexander Wright.*) The elasticity of our resources must be remembered; we hold large blocks of Treasury Bills; we have large liquid reserves.

2781. *Chairman*: Have you found that in consequence of the depressed state of industry your customers have been unable to repay their advances and the bank has been to some extent committed to the fortunes of particular undertakings, so that you have had to go on giving more than you would naturally have given, to keep your debtor going? Have you had that experience, either of you, to any great extent?—To a certain extent, not by any means to a serious extent; still it is there, and there is a corresponding moderate lock-up.

2782. What is called "frozen money"?—Yes; it may be quite good, but you could not get repayment at the moment, without a good deal of pressure and trouble.

2783. That shows that industry is itself in a depressed condition?—Yes.

2784. In Scotland, as bankers, do you take any steps to assist your customers in those circumstances. Do you give them advice? How far do you participate in their affairs?—We give them a great deal of advice and help.

2785. Have you had in some cases to cut your losses, and take, say, a junior security in place of what you originally had?—Yes, but not to any material figure.

2786. Have you taken part in any reconstruction schemes?—Yes, but quite in an exceptional way. (*Mr. Scott.*) I have not had practical experience of that. (*Sir Alexander Wright.*) You have not had that privilege. (*Mr. Scott.*) There is this to be observed, that at certain times certain industries are affected, and one or more of the banks may not be interested to any extent in that industry. For instance, you mentioned agriculture. All the banks in Scotland have a very large sum advanced to people in the farming industry, and to livestock salesmen. We have about one and a quarter million pounds. Of course, we could not insist upon every farmer paying off his advance at the time arranged. We would never think of doing that. To that extent we have to recognise when seasons are bad, that some latitude must be given. There is no question about the safety of the advances. With regard to the question whether we have taken part in reorganisations and that kind of thing: you may get some banks which are more interested in that than others. Some of the banks are interested more in textiles, and probably they have been suffering more than some of the others who, fortunately or unfortunately for them, are not in the industry except in a small way. So far as we are concerned we have the good fortune, at the moment, practically not to be interested to any extent worth talking about in such cases. This lack of wide banking connections with certain industries has been our misfortune in the good years, but at the moment it saves us from being hit in the bad times.

2787. On the other hand, have you, Sir Alexander, for the Royal Bank, been associated with some of the more unhappy industries in Scotland?—(*Sir Alexander Wright.*) Not in any special way. I would like to say that we have a larger business than the others. We are the biggest Scottish bank. Our advances amounted to £22,400,000, Mr. Scott's were £17,000,000; our deposits were £46,000,000. We have a much larger deposit and a larger advance business, and we have a wide representation in all classes of industrial enterprise, but I would not like it to be thought that we have had a bad time. We have had the experience which accompanies the present condition of industry, and is applicable to all banks; but we have come through it very well and our position as regards capital and reserves is exceptionally strong, and is yearly becoming stronger by substantial additions to our Rest and other reserves.

2788. *Mr. Newbold*: Are not both of you interested more in the east and north of Scotland than in the south?—No. (*Mr. Scott.*) Our principal business apart from agriculture which is spread all over the country is really in the west of Scotland. (*Sir Alexander Wright.*) Yes; we have a very large business in the west of Scotland—Glasgow.

2789. *Mr. Frater Taylor*: What particularly outstanding industries in your territory would you call distressed?—(*Mr. Scott.*) Almost everything is distressed.

2790. Of the larger ones—coal, to begin with?—(*Sir Alexander Wright.*) Iron and steel, coal, shipbuilding, engineering. (*Mr. Scott.*) Agriculture and fishing. There is hardly anything, except perhaps linoleum, that seems to be flourishing.

2791. *Mr. Newbold*: Whisky?—No, even whisky is not.

2792. *Chairman*: Let us pursue this question of assistance to industry. Are you ever asked by a customer who is in a bad way, if we may so put it, to whom you have already made as large advances as you can reasonably be called upon to make, but who is finding himself going from bad to worse, with his plant depreciating, and so on, and who would like to reorganise his business; he says "If I can get a little money just now I can instal new and improved plant, and I think I might make a fresh start." If a customer came to you with that kind of proposition, is that a kind of proposition which a Scottish banker would entertain, or would you let him come to London or go to the public for it?—(*Sir Alexander Wright.*) I think we would do our very best for our customer, if we saw possibilities of rehabilitation.

2793. Within a reasonable time?—Yes.

2794. What we understand is that orthodox banking practice is not intended to provide permanent capital for industry. But we are much concerned with the man who at the present moment is anxious to re-establish himself, and may possibly be a very deserving case and an enterprising person, but who may be met by the bankers' refusal to give him money; they say "It is really not our business to give this money; we cannot embark our liquid assets in permanent investment." How would a man of that sort in Scotland get his money—or would he simply have to go without?—Of course, it has happened occasionally that where there was a prospect of his being able to arrange a long-term advance, say by a debenture issue, we have provided the money temporarily. Sometimes we have been disappointed; the debenture issue has not come off.

2795. Within your knowledge of Scottish industry, and Mr. Scott's also, do you think that industry is being held back from fresh enterprise to any extent by the want of finance or credit facilities?—As far as banking facilities are concerned I should say most decidedly no.

2796. You do not think the trouble is there?—No, I do not think so. (*Mr. Scott.*) No, I should think that the question of industry having been held back has been more by inability to see any prospect of the thing paying. Take coal, at the present time. You cannot reasonably expect people to put fresh capital into coal conveyors, coal cutters, and that kind of thing—general equipment for mines; you cannot expect them under present conditions; but under more favourable conditions they would, and probably do quite well out of the results. The same with shipbuilding, and other industries. (*Sir Alexander Wright.*) Even with coal, there has been a considerable amount of help given to keep things going. (*Mr. Scott.*) Yes.

2797. Have you gentlemen, as bankers interested in the prosperity of the country, considered whether there were not means whereby you could assist a revival; not merely await the revival and then say "We will be very happy to have your improved accounts when they come along"? Have the banks in Scotland addressed themselves in some of the conferences that you hold, to the question whether you can stimulate a possible revival? As you know, one of our tasks is to make recommendations which may have the result of turning finance to account as a means of assisting industrial recovery. Have you any suggestion to make as to how the financial system in Scotland could be turned to account either by alteration of method, or of banking policy, or by the institution of new bodies designed to give new forms of credit? Edinburgh, as you know, has always been a great pioneer of the investment trust company—they probably originated there—and one wondered whether this problem in the present state of depression had been discussed among you in Edinburgh or Glasgow with a view of seeing whether any help could be devised for further financial assistance. Have you any contribution to make to our deliberations on that subject?—(*Mr. Scott.*) I see a certain difficulty up to the present in the banks taking any initiative. Take, for instance, coal. There have been negotiations between different coal concerns for amalgamation and reorganisation, and apparently these have not come to any definite conclusion. Now, it would be futile for a bank to step in until the parties themselves have come to some clear idea as to how they can be assisted with fresh capital. Take, for instance, the Clyde shipbuilding: You have a large number of individual concerns which have built up their fortunes within the last fifty or seventy years, and until those parties amongst themselves say, "We are going to limit the capacity of the yards; we have come to the conclusion that there is no possibility in the future of getting sufficient work to turn out boats at a profit"; until you get those parties together I do not know that the question is ripe.

2798. I should have thought that, possibly, on one of your customers, let us say engaged in the shipbuilding industry, coming to you with a deplorable tale of his financial position, you might be able to say to him, "I am afraid we cannot see our way to help you further unless you put your house in order." The power of the purse is pretty effective sometimes. Do you ever use the financial influence you possess to bring about reorganisation, or do you leave them to do it?—(*Sir Alexander Wright.*) We have to resort to all kinds of methods. (*Mr. Scott.*) I may say that I myself have used all the pressure of which I was capable as an individual to try to get a customer—not in shipbuilding—to see that it was in his own interest to take a certain step with regard to his concern; but it is very difficult to persuade such men until they come to that conclusion themselves. This particular case that I have in view was not so very long ago. I am satisfied, of course, that the thing ought to have been done at the time I spoke about it. That is what you mean, I think.

2799. Yes?—(*Sir Alexander Wright.*) We have done that. (*Mr. Scott.*) I have no doubt Sir Alexander Wright has done that; again and again we do it as we get the opportunity, but it is very difficult until the parties come to you with their difficulty. Take shipbuilding: We have not a shipbuilding concern that is in any trouble, so we cannot interfere in the industry, but there is, of course, quite a definite field, and it will come to that some day. Take iron and steel. All those parties will have to come together, and then will come the opportunity for financial and expert advice to be given as to the best means of getting the capital which is necessary.

2800. *Mr. Bevin*: Is it your experience that these industrialists do not move until they are right "on the rocks"?—That depends, I think, partly on their temperament. Some are born optimists and go on till the last minute. (*Sir Alexander Wright.*) When an advance is getting into a confirmed condition and becoming large, we may think it necessary to insist upon some measure of reorganisation, just putting it to the people, "Are your methods all right? What about your Directors? We think we ought to have a representative on the Board." We have had to do that recently in one or two cases. We have said, "We must have our man on the Board who will carry out our wishes and keep in touch with us."

2801. *Chairman*: You do that?—Yes. And, as it has turned out in several cases, with very satisfactory results.

2802. *Professor Gregory*: You are, in effect, doing a certain amount of industrial banking as understood on the Continent?—We are not taking the interest that German banks do; quite distinct from that.

2803. *Mr. McKenna*: You are not taking part in successful companies?—Not at all. It is only where a business seems to be getting into a bad state.

2804. *Mr. Tulloch*: Where you see a risk to yourselves?—Where we see a risk to ourselves. It is for self-protection.

2805. *Chairman*: It is a salvage process?—To a certain extent. And apart from that, we hope to see the business come round if it is properly managed and handled. There is a great deal in the character and competency of the people in charge of a business. Of course, these remarks only apply to a few exceptional cases.

2806. A good deal of money has always been gathered in Scotland for investment abroad, has it not?—Yes.

2807. Particularly, I think, in Canada, the United States and Australia?—Yes.

2808. Is it a favourite form of investment in Scotland? Is there any possibility of that money being turned aside for use in England in order to rehabilitate industry?—I think some of the Investment Trusts might be of considerable service in taking up blocks of new issues which are required for the bigger concerns.

2809. *Mr. Brand*: They would require, I suppose, to be satisfied that the concern was going to pay?—Oh, yes, it must be on a first-class paying basis.

2810. *Chairman*: That does not really meet the difficulty of the person who has not at the moment got a showing in which he can go to the public with a chartered accountant's certificate and attract its money; on the other hand, his proposition is not attractive to the bank, or the bank has lent him all it safely can do. Nevertheless, you may say, that industry ought to be kept alive. It may have been very hardly hit by foreign tariffs or things of that sort. The man says, "If I could have access to some money I think I could start afresh and make it a success."—The difficulty there is that we must follow sound banking principles. Our deposits belong to other people, they are payable to the greatest possible extent on demand; we cannot tie up deposits in loans of that kind. I should welcome myself some scheme for providing funds for such purposes as you have indicated.

2811. Various expedients, as you know, have been discussed—credit guarantees and things of that sort. Each of them, if they were in good hands, might be put on a sound financial basis?—And the banks might be used for operating the schemes. Of course, they have access to a great deal of information and know the position of business from day to day.

2812. Would the banks in Scotland be willing to associate themselves with an effort of that sort—assuming, of course, the proposition was a reasonable one?—Well, we have not talked it over with our colleagues. I cannot see much objection from a personal point of view.

2813. Of course, it would be impossible in Scotland, as in England, to start anything of that sort without the co-operation of the banks. You yourselves are the people who are really in touch with the finance of the country?—Yes.

2814. *Mr. Brand*: Do you have on your Board representatives of the industrial interests generally, as Directors?—(*Mr. Scott.*) Yes. (*Sir Alexander Wright.*) Yes.

2815. *Sir Thomas Allen*: Have you come to the conclusion that banks of moderate size are more useful than large amalgamations, and have you any views as to the amalgamations that have taken place in England?—Speaking for myself, I represent a bank of moderate size; I prefer the bank of moderate size.

2816. *Mr. Newbold*: What advantage has it?—There is room for such a bank.

2817. Why?—We have no difficulty in carrying on our business; we meet the requirements of our customers and the institution is not too great to enable the people at the top to handle it efficiently, we hope.

2818. *Chairman*: May I suggest to you that, as in so many things in life there is a debit and credit account. It may be said that the larger amalgamation has the advantage of a greater basis of credit?—We do not quarrel with the larger.

2819. The bigger bank may be able to stand a shock that the smaller bank may not. I am not saying I agree with the criticism. The larger bank may become so large as to get out of touch with its customer's personality and become more or less remote from the actual individual?—I think we rather pride ourselves upon that personal element, that we are not too big to keep in touch with our people.

2820. *Professor Gregory*: It is obviously much easier for you to discover promising talent among your own staff in a smaller bank than in a larger bank, and in Scotland you know all about your customers personally?—Yes.

2821. *Chairman*: Have you got branches of your bank all over Scotland, Sir Alexander?—Oh, yes, all over Scotland.

2822. Who is in touch with your customers in Scotland?—Our Branch Agents. We call them Agents, not Managers.

2823. Exactly the same system as in England?—Absolutely.

2824. Is there any personal contact between your branch customers and yourself, say?—Yes. Many of them come individually to me.

2825. Important individuals?—Yes.

2826. But most of them you do not see?—We know a great deal about them. Please understand I am not criticising the larger bank, I am not introducing anything controversial. I was asked the question what I thought and I said I preferred the bank of moderate size.

2827. The moment you have branches you become a big bank?—We are always trying to become bigger.

2828. *Mr. Newbold*: Your economic area is so small. (*Chairman.*) I think what Sir Alexander has in mind is that Scotland is a very much smaller country?—Yes; the number of our customers necessarily is very much smaller and the number of our branches is very much smaller, and it is possible to keep an eye on all of them.

2829. *Chairman*: You have your Inspectors, just as the banks have here?—Inspectors, superintendents.

2830. The Inspectors, I suppose, earn their promotion in the bank and get to the higher offices ultimately?—Yes. I suppose it would be rude to say the English system is modelled on the Scottish system, but it is really the case; our system of branches is very much older than it is in England.

2831. *Mr. McKenna*: You divorce the personal relation between the banker and the customer?—It is a matter of degree, I think, to a large extent.

2832. *Mr. Newbold*: You even started the idea of the Bank of England, did you not?—Yes. (*Mr. Scott.*) I think there really is something, Lord Macmillan, in this question of the personal element. After all, the number of hours in a day is limited, you have no time to see more than a certain number of people, but the mere fact that your business is not too large enables your Manager to take prompt action. For instance, take Glasgow. I am often asked on the telephone, So-and-so would like to see you. Very well. It is a customer, not of head office in Edinburgh, but of Glasgow, or a Glasgow Branch.

There is no difficulty in him seeing me. If necessary, he can come to see me or I can go to see him.

2833. *Chairman*: An hour's run?—The point is this—Sir Alexander is quite right here—that because we are a comparatively small bank, people do feel that they know you personally and they have that means of access. If they have any special piece of business that they would like to discuss with you personally, they know they have only to ask for an interview and they will get it. Supposing we were magnified five or ten times, the individual could not give the time to it, he would have to delegate it to somebody else. It might be quite as efficiently done; still, the customer is not satisfied; he cannot see the man he wants to see.

2834. *Mr. McKenna*: Is there not another solution possible? There is one Mr. Scott in his bank, but you might have six Mr. Scotts each dealing with a section?—Yes. Well, I do not think, with all deference, that is so satisfactory.

2835. If they were all equally good?—That is what I say; the thing is perhaps as efficiently done but the man does not have the same satisfaction.

2836. But he would see one of the Mr. Scotts?—Yes, but in this case it would not be *the* Mr. Scott.

2837. *Professor Gregory*: May I ask what is your practice with regard to loans and overdrafts? Do you at Head Office go through all the applications and so on, or do you give your Agents discretionary limits?—They have limits as to size, no definite figure; in the case of any ordinary country overdraft of a few hundred pounds an Agent exercises his own discretion; he puts forward his application for an advance to Head Office, if it is otherwise than temporary; it is on a printed form with all the details; that goes before the Executive and then it is put before the Board by the General Manager.

2838. Supposing you have an application for a fairly big overdraft or cash credit, how long, on the average, does it take between the receipt of the application and the granting of the loan?—It does not matter practically what is the size of it, the application can be dealt with right away, sometimes on the telephone, because, although I have mentioned the ordinary procedure in the case of an advance running into pretty extensive figures, the Board naturally hand over to the General Manager discretionary powers, and if he thinks there is anything rather exceptional about the application he simply telephones his Chairman of Committees, or some such member of his Board, tells him in a few minutes what the matter is, and the thing is settled. There is no difficulty in regard to the Scottish Banks in that respect; a man can get a reply right away. (*Sir Alexander Wright.*) There is no delay when there is any urgency. Many of our customers in Glasgow draw the cheque first and wait for the authority afterwards!

2839. *Mr. Tulloch*: On the subject of these overdrafts, are the applications which you get from your branches applications for loans or for limits on current account, maximum limits of overdraft?—(*Mr. Scott.*) Yes, what the man thinks he requires. A farmer may want £1,000 or £5,000; he wants to run up to, say, £5,000 if he requires it, but it may actually turn out in the end that he does not use more than £2,000 or £3,000.

2840. Your Agent would ask for £5,000?—Yes, the maximum of his requirements, and he indicates on the sheet whether the man is likely to use the credit to the full extent or otherwise.

2841. Would you have it revised every six months or every year?—That would depend on circumstances. The advance may be for a special purpose and the money for repayment may be forthcoming in three, four or six months. On the other hand, in almost nine cases out of ten, what we do in our institution—and I think probably the same course is followed in others—is to grant advances for one year; that is to say that the man has this credit at his command for 12 months, and at the end of that period the matter is brought up again on an application for renewal with reduction or otherwise; it may be for an increase. Practically every advance in the bank's books beyond moderate figures, say £500, with us at any rate, is reconsidered by the Directors every year at the most.

2842. *Chairman*: It is the same with you, Sir Alexander?—(*Sir Alexander Wright.*) Yes, of course, our branches are regularly inspected and the Inspector's Report comes up. In cases where credit has been allowed for 12 months, if there is no reduction or re-arrangement the thing is stirred up and questions are put. It does not mean that it is not renewed for another year, but it is reviewed.

2843. *Mr. Tulloch*: So there is a great deal of elasticity with regard to these commercial advances?—Yes, there must be. Surely that is common to banking in England.

2844. Quite; but I wanted to get it from you that it was so in Scotland?—Yes.

2845. *Sir Thomas Allen*: I should like to return to my point about the moderate-sized bank. I quite appreciate the advantage of close relationship between the customer and his bank, the Manager or Agent. But I have in mind this problem which is before us. There must be a new orientation between finance and industry in the larger world in which we are living now; things will have to be done in a very much larger way and assistance given to very much larger business propositions than the ordinary ones between customer and bank. What I want to get out, if possible, is this: How far the smaller banks, if we are going to get any assistance to industry from our banking system, can either collaborate as smaller banks, or how far bigger amalgamations would be more helpful in solving the problem we have in hand? I thought, perhaps, our friends from Scotland could help us in that direction?—There are, of course, cases in Scotland where a big account is shared by two banks. That is not uncommon. Mr. Scott and I have accounts which we share. We have no difficulty.

2846. And if you were up against a big, well-considered rationalisation scheme in Scotland there would be no more difficulty in collaboration between the banks in Scotland than you have now?—I should say no. (*Mr. Scott.*) Oh, no. We have various accounts where over a considerable period of years it has been the practice of two banks which are interested in the particular firm or company to agree that they would each give so much; and in that way I am afraid, through the force of competition, even in Scotland, the advances given to customers are sometimes larger than they would have got from the one bank.

2847. *Chairman*: I do not think I have any more questions on the answers you have been good enough to give in writing. Would you like to supplement them in any way, Sir Alexander?—(*Sir Alexander Wright.*) I hope we have satisfied you that the banks in Scotland are doing their utmost for trade.

2848. I think we are satisfied as to that, but what we are exploring here is whether perhaps other and different kinds of things can be done. I think we will all agree that in orthodox banking nothing more can be done, but the question is whether we ought not to become heretic. (*Mr. Bevin.*) You are willing to become a heretic, are you?—I am not absolutely wedded to orthodoxy. I should welcome any specific proposals such as you have adumbrated, Lord Macmillan.

2849. *Chairman*: That is what we have to explore here, to see if anything can be done?—And if I might make a humble suggestion it would be that any such procedure could be quite well handled through the banks themselves.

2850. You would welcome that?—I am speaking for myself. I think anything of that nature would receive the utmost hospitality, sympathy and consideration.

2851. Of course, in the end it would redound to your own benefit; anything that will restore the prosperity of industry will benefit the banks?—Yes.

2852. If on consideration anything else occurs to you or your colleagues, we shall be very glad to receive from you anything in the way of memoranda. The next time you have a meeting with your managers, if you have any suggestions to make among yourselves, we shall be very glad to have the advantage of them. (*The Witnesses.*) Thank you very much.

(*The Witnesses Withdrew.*)

SIXTEENTH DAY.

Friday, 14th March, 1930.

PRESENT:

The Rt. Hon. LORD MACMILLAN, *Chairman.*

Mr. ERNEST BEVIN.
The Rt. Hon. LORD BRADBURY, G.C.B.
The Hon. R. H. BRAND, C.M.G.
Professor T. E. GREGORY, D.Sc.
Mr. J. M. KEYNES, C.B.
Mr. LENNOX B. LEE.
Mr. CECIL LUBBOCK.
The Rt. Hon. REGINALD McKENNA.
Sir WALTER RAINE.
Mr. J. FRATER TAYLOR.
Mr. A. A. G. TULLOCH.

Sir FREDERICK LEITH-ROSS, K.C.M.G., C.B.
Mr. G. ISMAY, *Secretary.*

MR. J. R. BELLERBY, Fellow of Gonville and Caius College, called and examined.

STATEMENT OF EVIDENCE SUBMITTED BY Mr. J. R. BELLERBY.

THE LIMITS OF CREDIT EXPANSION UNDER THE GOLD STANDARD.

1. The terms of reference of the Committee appointed by the Chancellor of the Exchequer to "inquire into banking, finance and credit" are so wide that they would seem to imply a request for an opinion on virtually any question which the Committee itself may choose. One problem will, however, almost inevitably arise, since it is central to many others, and will apparently call for solution before other points can be treated: namely, the problem of the most suitable monetary standard for this country to adopt, or of the modifications which may be made in the mode of operation of the existing standard.

2. During the recent years attention has been concentrated perhaps unduly on the activities of the institutions controlling the monetary system, to the neglect of the nature of the system itself. When the Bank of England has lately been compelled to restrict credit, criticism has been directed primarily against the Bank, and not against the rules laid on it. The fact has been largely overlooked that the Bank is not a free agent, that its policy is governed by Parliament through the imposition on it of a rigid form of gold standard, and that, in addition, it is narrowly confined by an Act limiting its fiduciary note issue. In reality, whatever may have been adverse to industry in the Bank's recent policy has been due only to the decision of the directors to apply cautiously the established law. Thus, if, in the future, an improvement is to be secured, this can come only through new legislative measures affecting the nature of the system; and if it is desired that the Bank of England should apply a policy beneficial to British industry, the first step must be that of allowing the Bank at least some discretion in the determination of its own policy.

3. The development of this theme will involve here, first, the consideration of those features of the present system which in fact impair the freedom of the Central Bank. In this connection it will be necessary to consider in turn both the powerlessness of the Bank to apply measures which it desires, and its inability to avoid measures which it does not desire. At a second stage, the attempt must be made to show how this situation may be escaped, and what changes would be needed in the present system in order to give the Bank a certain reasonable degree of freedom of action. Then, at the end, all such changes must be brought together and shown in the form of a single concerted scheme.

4. The present notes will fall into three sections following this outline.

I.—EXISTING RESTRICTIONS IMPOSED ON THE CENTRAL BANK.

5. The present impediments to the free action of the Central Bank arise out of the nature of the gold standard which has been applied in this country since 1925. Two main features distinguish this standard. The first is the compulsion laid on the Bank to buy and sell gold at prices definitively fixed by law. The second is the removal of all restrictions to the free import and export of gold. These two features together form the essence of the present gold standard, and are significant mainly by reason of their destroying what will be termed here the "long-period" freedom of the Central Bank. A further subsidiary, though not unimportant, element in the system, is the legal limitation of the note issue, a limitation which has the effect of restricting the "short-period" freedom of the Bank.

6. It will be necessary here to maintain throughout the distinction between "long-period" and "short-period" freedom, as the difference is more than one of degree. The factors limiting "short-period" freedom may suitably be considered first, since, by definition, they are more restrictive, and act at an earlier stage, than others affecting the scope of action of the Bank.

(*a*) RESTRICTIONS ON THE SHORT-PERIOD FREEDOM OF THE CENTRAL BANK.

The Limitation of the Note Issue.

7. At the time of writing, 10 December 1929, the latest return of the Issue Department of the Bank of England shows a total issue of £394 million of notes.* Of this amount, £134 million is backed by gold, and the remainder, £260 million, is fiduciary, being backed only by Government debt, securities and silver coin. Since the fiduciary issue is legally limited to this £260 million, no more notes can be issued by the Bank unless it either adds to its holding of gold, or secures the special sanction of the Treasury to exceed the legal fiduciary limit.

8. Thus, assuming that the limitation is intended to be applied, and that there is no inflow of gold, the Bank cannot issue another note beyond the existing total of £394 million. In other words, this total shows the maximum number of notes at present available for financing trade, and for supporting the general superstructure of bank credit.

9. Most of the £394 million is already in circulation outside the Bank, being needed to finance trade at its existing level. The joint stock banks and the public in general hold £361 million; and the Bank of England itself retains only £33 million. Hence the amount of the *reserve* available to finance an *expansion* of trade and credit is represented by the amount which the Bank of England will be prepared to surrender to the public from its small holding of £33 million.

10. It will be obvious at first glance that this reserve is extremely meagre, and that, even if the Bank were prepared to release the whole £33,000,000 for outside use, this would not yield an adequate basis for trade expansion. Assume, for instance, that trade were to increase by 10 per cent., *i.e.*, sufficiently to absorb the existing unemployed. Prices remaining unchanged, such an increase might be expected to raise the demand for notes, for paying wages and for small transactions or till money, by about the same proportion. In other words, there would probably be an additional demand for notes of about £36,000,000; and application would be made to the Bank of England for this amount, which is actually more than the Bank now possesses as reserve. The corollary of this for the Bank of England is that it has to do all in its power to prevent an expansion of trade. For, every development of trade, not accompanied by a fall of wages and prices, represents a threat to its reserve of notes, so long as the fiduciary limit is to be respected.

11. The inadequacy of the present note issue as a basis for trade expansion becomes still more apparent when it is borne in mind, first, that the recovery of trade may need the stimulus of a recovery of prices, which would involve an additional note supply; secondly, that the Bank may have to meet a foreign drain of gold, resulting in a contraction in the non-fiduciary issue of notes; and thirdly, that, in view of these contingencies, the Bank Court probably regards its reserve as being already at the lowest limit consistent with safety. Traditionally, any serious reduction of the reserve below its present low limit would be viewed with considerable uneasiness, and it may justly be assumed that whenever a reserve situation similar to the current one is reached, the Bank Court will not feel comfortable until it has actually increased somewhat its basis of notes.

12. If this is so, it follows that there is at present scarcely another note available for financing a trade revival. The only way in which the Bank could, unaided, provide a wider basis for this purpose would be by attracting gold; but since this ordinarily involves the raising of the Bank Rate, and some contraction of trade and credit, it would defeat its own purpose at the outset. Hence, the conclusion is reached that the Bank of England can do nothing, independently,* to assist trade. Its "short-period" freedom is almost rigidly restricted by the legal limitation imposed on its fiduciary note issue.

13. The suggestion may be made, in response, that the limitation at present in force is not rigid, since it can be exceeded if necessary by permission of the Treasury, and that the Act envisages the subsequent revision of the limit by Parliament. But, in reality, the Act is not being interpreted for practical purposes in this way. The Bank of England itself manifestly regards the limitation as something to be respected—a barrier to be crossed only in case of emergency—and since the Bank succeeds with skill and caution in keeping well on the safe side of the barrier, the emergency at no time arises. It is psychologically impossible for the Bank ever to exceed fiduciary limitation unless it is prepared, in conjunction with the Treasury, to ignore the limitation not only in emergency but in smooth and normal times. In other words, if the limitation is to be exceeded, this must be done by deliberate design, the change being effected when there is no special pressure of external events.

14. To throw upon the Bank of England the responsibility of deciding whether it will treat casually or seriously an indication given to it by Act of Parliament seems doubtful practice politically: and the alternative of making the Act unambiguous would seem preferable. But the point of chief concern is to determine what is the nature of the amendment desired: whether, indeed, there is any gain whatever in restricting the note issue; or whether such a measure is not redundant in present times.

15. When the practice of limiting the fiduciary note issue was confirmed in 1844, conditions were substantially different from those which prevail now. Bank notes and coin then formed a higher proportion of the community's means of exchange, the cheque habit being less fully developed.† Moreover, the holder of a bank note was entitled at all times to present it at the Bank of England for exchange into gold coin. Hence, notes in circulation represented a serious liability, and were the main source of danger in the event of a "run on the Bank." In these circumstances it was only wise to limit the number of notes which might be issued. Since 1844, however, the situation has altered in several respects, with the result that the old protective measure has now become superfluous as a safety device and is a barrier to new development. In the first place, substantially the whole of the notes at present in circulation are needed in circulation; there is now no legal substitute for them as means of exchange; therefore only the very small surplus of unrequired notes can be submitted to the Bank for exchange into gold. Secondly, the power to submit notes for exchange does not lie with any ordinary person, since the least amount of gold that can be bought costs about £1,700. Thirdly, no possible gain can accrue from buying gold, except for professional dealers and exporters. In these circumstances, the prospect of an "internal drain of gold" may be left entirely out of account; and little is to be feared from the submission of notes for exchange into gold even for export. The maximum risk inherent in the note issue is represented by that small proportion of it which the community is able and willing to spare from circulation. And this situation will prevail so long as the present practice of avoiding gold coinage is continued.

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* Although, in the light of events following the writing of this paper, the situation described here is shown not to be persistent, the Bank presumably must at all times act as if it were a possible, recurrent situation.

* From this statement is excluded the possibility of expanding credit through co-operation with the Government or the joint stock banks, e.g., through a change in the amount of the fiduciary issue, or through a reduction of the amount of notes held by joint stock banks as till money.

† In the address of the Chairman of the Midland Bank, delivered on 22nd January, 1930, an estimate was given showing that, in 1844, about £70 million of currency (gold coin and notes) was in circulation outside the Bank of England, whilst deposits amounted to £200 million. The corresponding figures for present times are approximately £360 million of currency notes in circulation; and £2,000 million of deposits.

16. From this it would appear that the only matter with which the Bank need be seriously concerned at the present time is the growth of credit. Cheques drawn against bank credits represent a much higher proportion of the whole circulating media of the country than do notes (total bank deposits being probably about six times greater than the total of notes in circulation) and it is therefore much more important, from the point of view of maintaining a stable currency or of safeguarding the gold standard, that the credit supply should be regulated, than that the note issue should be restricted. Furthermore, if any control whatever of the note issue is desired, it is preferable that this should be effected actually *through* the control of credit. Given a certain supply of credit, a certain corresponding supply of notes will be needed and demanded by industry. Thus, if the major factor, credit, is directly regulated, the amount of the note issue will then adjust itself to the volume of credit, and will in this way itself be regulated, though without rigidity. Such a method is clearly better than the present one, under which the size of the whole monetary body is governed by the size, arbitrarily fixed, of the tail of note issue.

17. The general result to which the above discussion leads may be restated briefly as follows. Inasmuch as the Bank of England has in the past respected the legal limitation imposed on its fiduciary note issue, its "short-period" freedom has been almost completely destroyed. If it continues to observe this limitation, it will be compelled to maintain an inflexible control over trade and credit, and will be powerless to give any substantial aid to industry. The limitation itself is, however, an anachronism in any period when the note issue forms only a subsidiary part of the country's total monetary stock, and when there is no obligation upon the Bank to convert notes into gold coin; the limitation can serve no useful purpose at such a time, but is merely an impediment to the scientific control of credit. A reasonable policy would therefore be to abandon altogether the attempt to regulate the note issue directly, and aim only at regulating the volume of credit, the amount of the note issue being allowed to adjust itself freely to the amount of the credit granted.

(*b*) MEASURES FOR INCREASING THE BANK'S SHORT-PERIOD FREEDOM.

18. As observed earlier, the limitation of the note issue provides the first check to the expansion of credit by the Bank, and acts, as it were, in the short period. If this check were to be removed, there would be others, however, the influence of which might be felt less immediately, but which would nevertheless in the long run curtail the freedom of action of the Bank. They may be regarded as destroying almost completely its "long-period" freedom, whilst leaving it a certain temporary, or "short-period," freedom. If, then, it is desired to extend the Bank's "short-period" freedom to the utmost limit, the task involved is in essence that of postponing, for as long a time as possible, the action of these long-run checks.

19. It is this task which is now to be considered: and the beginning must be made by a description of the chief factors which destroy the "long-period" independence of the Bank, showing the way in which they act.

20. The principal checks to be considered are those which arise out of the two features described earlier as forming the foundation of the present gold standard: namely, the obligation laid on the Central Bank to buy and sell gold at prices fixed by law; and the removal of all restrictions on the export and import of gold. These two factors jointly limit the freedom of action of the Bank of England by binding its policy in the long run to that of Central Banks abroad. They have the effect of destroying the power of the Bank of England to adopt a positive independent policy, and of causing its policy to be drawn in the wake of others overseas.

21. According to traditional theory, this bond between the monetary policies of countries on the gold standard is established in two ways: partly through the interdependence of discount rates and the flow of international short-term investment; and partly through price levels and the flow of international trade. Thus, to consider the first of these, the theory shows that it would be impossible for the Bank of England to maintain its Rate continuously out of adjustment with those of important foreign centres. For if, at any time, the Bank Rate in London is fixed substantially lower than foreign rates, short-term investment leaves London in search of more profitable return abroad. Sterling bills and sterling balances seek exchange into foreign currency, and the foreign currency rises in value. When the rise has gone beyond a certain point, it becomes profitable for bullion dealers to buy gold with sterling at the Bank of England's fixed price, export the gold for exchange into foreign currency at the foreign Bank's fixed price, then with this high-value currency, buy more cheap sterling, and repeat the process. The movement cannot proceed far without serious threat to the gold reserves of the Bank of England; and the Bank's only remedy in the long run is to reverse the initial cause, by raising its Rate and bringing it again into line with rates abroad.

22. The point of interest here is that if *either* the compulsion on the Bank to sell gold at a fixed price, *or* the free export of gold, were abolished, the threat to the Bank's reserves would no longer exist. And in either case the Bank would be free to do what it liked with the Bank Rate. It is the joining of these two features which, inevitably, in the long run, binds the discount policy of the British banking system to that of other countries.

23. The same result follows, though by a different route, in the case of any marked divergence of British commodity prices from foreign prices. If the prices of internationally traded goods in Great Britain rise relatively to those of other countries, British exports tend to fall and imports to rise. The indebtedness of this country to others increases and, since the debts have to be met in foreign currencies, these currencies are in greater demand and rise in value. If they rise beyond a certain point, gold again flows outwards from the Bank of England's reserves; and again the Bank's only remedy is to reverse the initial cause, by restricting credit and forcing down British prices into line with price abroad.

24. Although the chain connecting British and foreign price levels has many links, and the influence transmitted through them is far from immediate, it remains true that there can be no ultimate freedom for British credit and price policy so long as the Bank of England is obliged to sell and buy gold at fixed prices, for free export and import. Given these conditions, any serious maladjustment between British and foreign price levels will be followed by a movement of gold; and if the movement is outwards the Bank of England will be compelled to take action to restrict credit.

25. From this brief description the means may be more clearly shown for extending the "short-period" freedom of the Bank. The task involved, it was said earlier, is to *postpone* the effects of the "long-period" checks. Attention may now be focussed, however, on the one effect, namely, the movement of gold. The essential problem involved in any attempt to lengthen the term of freedom of the Bank of England is to discover some means whereby the *outflow of gold* from its reserves may be either *delayed* or, when it happens, temporarily *ignored.*

26. The Federal Reserve System of the United States preserves almost complete independence by being able to ignore, in determining its policy, any inflow or outflow of gold. It holds immense stocks of gold, and has apparently an inexhaustible capacity for absorbing more; hence no ordinary movement of gold to or from other countries affects its policy in the least degree. This method cannot be directly applied to Great Britain. For, presumably, it would be neither politic nor profitable for the Bank of England to attempt to establish a similar position, since the accumulation of redundant stocks of gold in the Bank's vaults would merely hasten the arrival of a world-wide shortage of gold. It would, nevertheless, seem desirable for the Bank of England to be able to ignore a considerable reduction of its gold reserves from the present level. If this were possible, it would not only increase the "short-period" freedom of the Bank, but also liberate more gold for use in emergency by other countries.

27. In reality, the only reason why the Bank of England can at present afford to lose so little gold is that its reserve situation is expressed by a misleading ratio. The traditional reserve "Proportion" of the Bank shows, not the percentage of *gold*, but the percentage of *notes**, held against certain outside liabilities Thus, were the Bank to lose the whole of its note reserve, whilst retaining 30 per cent. of gold against liabilities, its reserve strength would be shown as 0 per cent., instead of the actual 30 per cent. One of the first steps needed, therefore, to enable the Bank to ignore a considerable outflow of gold is to revise the method of stating its reserve strength.

(*I*) *The True Measure of the Bank of England's Reserve Strength.*

28. It may be mentioned that the significance of the present "Proportion" shown in the Bank's weekly return is derived solely from the limitation of the fiduciary note issue. If there were no such limitation, there would be no purpose in basing the Bank's Proportion on its reserve of notes, since this reserve could be increased at will. It follows, then, that were the limitation abolished, as has been suggested above, a new method would at once have to be devised for showing the reserve position.

29. Any realistic method of indicating the Bank's present position reveals a remarkable strength. On 4 December the gold held in the Issue Department amounted to £134 million. Of the outside liabilities of the Bank, "Public Deposits" may be regarded as representing no claim for gold, and, of the note issue in circulation, only that part of it which might be spared from circulation could be submitted for exchange into gold, say, a maximum of 10 per cent. This, together with "Other Deposits" and seven-day Bills, making a total of £132 million, represents the maximum demand for gold which can now be made at the Bank of England. In other words, the Bank can meet every liability entailing a loss of gold, even though all claims are submitted together. A realistic expression of its strength would show a Proportion of over 100 per cent.

30. The conclusion emerges, therefore, that the only steps needed to enable the Bank to ignore a very considerable outflow of gold, and thus increase its "short-period" freedom, are, first, to free the note issue from present restrictions and, secondly, to publish weekly a return showing the true strength of the Bank, *i.e.*, the proportion which the gold reserve bears to those liabilities of the Bank which represent a claim for gold.

(*II*) *Pegging the Sterling Exchange at the Gold Points.*

31. Of the two methods of increasing the "short-period" freedom of the Bank, it may frequently happen that the ability to *delay* the movement of gold may prove the more desirable than to *ignore* it. The remaining suggestions in this paper will be confined to methods for causing delay.

32. Under the present form of gold standard, an outflow of gold can be retarded only by preventing the sterling exchange rate from falling below gold export point. All measures for preventing a loss of gold must therefore resolve themselves into measures, either for restricting the fluctuation of the exchange rate, or for moving the gold export point further down.

33. One obvious method of restricting the movement of the exchange rate would be to include amongst the assets of the Bank of England a considerable proportion of foreign securities, on the understanding that these would be sold whenever it was desired to peg the sterling exchange at gold export point.*

34. The amount of the securities thus held need not be shown as a separate item in the Bank's weekly return, but might preferably be merged with "Government Securities" and "Other Securities" in an amalgamated return of the whole Bank.† The reason for not showing foreign securities as an independent item is that there might be times when changes in the size of the fund would cause speculators to make either false or undesirable forecasts of exchange rate movements, and fail to reinforce the policy of the Bank. So long as it is assumed by the market that the Bank of England has securities sufficient to continue holding the exchange rate at gold export point, speculators will be led in their own interests to strengthen the efforts of the Bank. They will more readily pour their spare resources into the purchase of sterling, since they will assume that sterling is not likely to fall in value further. In general, it may be said that, whatever measures may be adopted by the Bank to peg the exchanges at certain limits, these measures must inevitably be to some extent supported by the market; and the more powerful the action of the Bank is believed to be, the stronger will be the market's reinforcement.

(*III*) *An Embargo on the Export of Capital.*

35. A second method of holding the exchange rate at gold export point and preventing a loss of gold is to impose a temporary embargo on British investment abroad. The method is in fact followed by the Bank of England in current practice and is made possible through the Bank's direct relations with international financial houses. The embargo may be made to bear either upon long-term investment or on short-term loans. It is customarily regarded as an emergency measure, but more especially so when applied to short-term loans. The effect of the measure is to reduce for the time being the quantity of sterling seeking exchange into other currencies and thus to check the fall in the value of sterling.

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* The amount of the notes corresponds to the *excess* of gold held by the Bank over the quantity needed as backing for notes in outside circulation.

* This proposal would apparently not involve new legislation, since the Bank of England, it is understood, has already partly applied it, A further method of achieving the same result, when the International Bank is fully established, will be (a) to secure an advance from the International Bank in terms of other currencies and buy British securities with it, or (b) to draw on an existing deposit at the International Bank for the same purpose.

† There would be no purpose in separating the Issue Department and the Banking Department, nor their respective returns, once the limitation of the fiduciary note issue were removed.

(IV) Government Borrowing for Public Enterprise.

36. Amongst the measures for extending the "short-period" freedom of the Central Bank, the one which calls for special attention at the present time is that under which the Government would co-operate through the issue of a loan. The step required of the Government in this connection is to borrow from the public, for purposes of State enterprise, at a relatively high rate of interest. To be effective, the rate offered should be high enough to attract savings ordinarily destined for investment abroad, and to draw in further funds from America and other lending countries.

37. The influence of such a policy on the sterling exchange rate would depend on the extent to which it modified the flow of international investment; if it caused a substantial diminution in the net outflow of funds, it would probably raise sterling in value above gold import point. In this case, gold would pour inwards into the Bank of England, which would then be in a position to reduce its discount rate and expand credit. (This is one of the few instances in which a high interest rate *leads to* a low discount rate.)

38. It is evident that the Bank of England could continue pursuing an independent credit policy and could maintain a relatively low Bank Rate for as long as the Government was prepared to support its policy by borrowing at a high rate of interest. The degree of independence possible in this way is undoubtedly greater than that which could be secured through any other channel.

39. *Prima facie* it would seem that the *only* factor limiting the continuance of the Bank's freedom would be the limitation imposed on the amount and period of the Government borrowing. But certain other factors would have to be watched carefully during the course of the scheme, lest they should, under cover of the scheme, be storing up difficulties at the end. In the first place, a high rate of interest might create a tendency for costs and prices to rise. If the rate were increased 20 per cent., *e.g.*, from 5 to 6 per cent., this would mean a 20 per cent. rise in the interest-cost of all goods produced with new or replaced capital; and since this cost would affect marginal or "last-increment" supplies it would tend to be reflected in prices. The tendency, or this aspect of its causation, would be offset to some extent if the banking system maintained low discount rates, since a proportion of the newly borrowed money would then be secured at a lower cost; and the net effect on prices of the two influences might be slight.

40. There would be a further influence upon prices through demand, assuming that the scheme led to an expansion of credit and trade. But this influence would be somewhat indeterminate. It is conceivable that any additional demand, by calling forth more production from firms now working below capacity, and by thus reducing per unit costs, would tend to lower prices. As against this, past evidence of the trade cycle might be adduced to show that whenever, as at present, prices are unremunerative for a large part of industry, a sustained increase of demand as a rule results in a permanently higher level of prices. But a prediction on these grounds is in any case little more than surmise.

41. The chief risk in a potential rise of prices is that, if it occurs, its adverse effects must be exceedingly difficult to detect in advance. A rise of prices could do no harm whatever during the actual currency of the scheme. If it were to cause exports to decline and imports to grow, the influence of this on the exchanges would be fully neutralised by the Government's action in borrowing. The existence of danger would thus be masked. Under the protection of the scheme, prices might creep upwards and continue the upward movement until they represented a considerable handicap to export. But the handicap would only become evident at the end, when the scheme had run its course.

42. The difficulty of determining whether the situation holds any menace is increased by the inadequacy of the statistics available. The mere observation of British price movements is of little value, since the real concern is to detect changes in British prices in relation to foreign competing prices. If British prices were to remain stable under the stimulus of the Government scheme, whilst foreign prices fell, the resulting situation would be equally as dangerous as if British prices had risen whilst foreign prices remained unchanged. It is the divergence of British prices from those of other countries that matters; and no deductions from the purchasing power parity theory would seem sufficiently accurate to yield a decision as to what degree of divergence would be safe. Furthermore, if statistics of international trade are to be used to indicate whether imports are unduly rising and exports falling, their evidence may mislead; for if a rise in imports and some slight decline in exports accompanied Government borrowing, this would be a normal and expected result—a result which would adjust itself immediately the borrowing ceased, if it has not gone too far. But, again, it would be impossible to judge how far, exactly, the movement might with safety go.

43. These difficulties do not seem to be of such weight as to destroy the value of this proposal for extending the "short-period" freedom of the Bank. They merely call for caution in dealing with its possible after-effects. Although these effects may be unpredictable, they can hold no threat if all contingencies are known in advance, and if suitable measures are in readiness for them.

44. Were the scheme to throw the British price position seriously out of adjustment with the external level, the only satisfactory remedy would, however, be one which would place the Bank in a position of "long-period" freedom. The measures needed will be described below. At this stage it should be particularly noted that the orthodox method of restoring the position would be disastrous. In general, it may be said that when measures yielding "short-period" freedom have been used until they cause maladjustment between the British and foreign levels of prices, the only safety then rests in introducing measures which yield "long-period" freedom.

(V) Widening the Gold Points.

45. A final method of increasing the "short-period" freedom of the Bank is to set the selling price further apart from the buying price of gold. Thus, instead of selling gold at 77s. 10½d. per standard ounce, and buying it at 77s. 9d., the Bank might fix the prices, say, at 78s. and 77s. 8d. The effect of this would be to widen correspondingly the distance between the gold export point and the gold import point, or, in other words, to widen the range over which the sterling exchange rate might fluctuate without causing an inflow or outflow of gold. This in itself would have the effect of delaying movements of gold. An additional retarding influence would probably be secured, however, indirectly. Since the exchange rate could move over a wider range, there would be a greater incentive to brokers and others to purchase sterling whenever the rate touched its lower limit; more profit could be reaped when the currency recovered; and the effect of the inpouring of greater funds to secure the greater profit would be to place an added check on the fall of sterling. In general, the widening of the gold points would tend to cause movements in short-term investment to take the place of movements in gold.

46. The one risk inherent in the proposal appears to be that it might increase speculation in gold and add to the number of bullion dealers anxious to seize upon the reserves of the Bank whenever the exchange rate fell below export point. There seems to be no means of meeting this risk, except by causing any movement of the exchange rate beyond gold point to be a very rare event so that the possibility of profit from dealing in gold might be minimised. In other words, it would seem necessary to apply this method of increasing the Bank's "short-period" freedom only in conjunction with other measures, described above, for pegging the sterling exchange rate at the gold points.*

II.—THE NEED FOR LONG-PERIOD FREEDOM.

(*a*) PRECAUTIONS NECESSARY IN THE USE OF SHORT-PERIOD MEASURES.

47. All the steps so far discussed for increasing the independence of the Central Bank are strictly of the "short-period" type; the factors limiting the time for which they can be applied may in each case be clearly shown. The freedom secured from the power to ignore the outflow of gold has obvious limits. That secured from the ability to peg the exchanges lasts only until the Bank's fund of foreign instruments is exhausted. An embargo on foreign lending depends for its continuance on the acquiescence of the investing public. The liberty derived from Government borrowing ceases at the same time as, or in some instances before, the borrowing itself ceases. In the case of the widening of the gold points, freedom is gained only until the exchange rate has passed beyond the newly established points. Thus, in every instance, there is a strict time-limit for which the measures can be applied; and the Bank derives from them only a limited scope for independent action.

48. In spite of this time-limit, certain precautions in the use of these "short-period" measures seem necessary. Paradoxically, the need for caution arises, not because the measures allow too little freedom, but because they allow too much. They yield an excessive elasticity in any system which, in respect of long-period movements and conditions, is rigid. If the Bank were at any time to persist in an independent policy, presuming on the ample temporary liberty which these measures give, and if this were to result in a serious divergence of the British price level from the world level, sooner or later the Bank would have to apply a thorough corrective. The further it had allowed the British price level to stray, the more damaging and long-drawn-out would be the return; and the harm caused by the readjustment might outweigh the initial gain from independence.

49. Measures for the increase of "short-period" freedom may thus, like loose springs in a train, cause undue swaying. The oscillation may indeed reach such extremes as to swing the monetary train off its golden rails. Ideally it would be desirable to confine the use of "short-period" measures to occasions of temporary emergency alone, applying them essentially as shock-resisters. The type of situation for which they would be suited would be that which arises, for instance, during a Wall Street inflation. An occurrence such as this may be regarded as purely temporary, to be dealt with by temporary measures. But were the Bank to apply measures which yield only elasticity, or "short-period" freedom, to deal with conditions which are permanent, clearly it would only aggravate a postponed disaster.

(*b*) SITUATIONS IN WHICH SHORT-PERIOD MEASURES ARE UNAVAILING.

50. Recent events have provided several examples of situations in which "short-period" measures would apparently be of little value. The chief of these, since everything has subsequently depended on it, was the restoration of the gold standard in 1925. Technically this step was carried out with despatch, and with a caution above criticism. But the change itself, no matter how well effected, brought in its train results which no technique and no elasticity could obviate. Its inevitable effect was to raise the value of sterling, so that British goods, priced in terms of sterling, became more expensive to foreign purchasers; and foreign goods became cheaper to British purchasers. Everywhere a handicap settled on British goods, foreign goods gaining preference. Exports from this country fell; and all trades influenced by foreign competition suffered.

51. A secondary effect, resulting from the handicap to exports, was a tendency for gold to leave the Bank of England—a tendency which has obliged the Bank throughout to restrict credit.

52. These results followed relentlessly from the first decision. They were obvious and predictable.* But the point of interest here is that the situation they created was one which could be met, under the existing form of gold standard, only in the orthodox way: namely, by contracting credit, trade and employment until wages and internal prices in this country fell to a new competitive level. To have temporised with "short-period" measures, such as have been described above, would have had little more effect than to retard the process of readjustment.

53. A second example of a situation in which "short-period" measures could have been of no avail was that of the progressive decline of prices since 1925. The Board of Trade wholesale index has fallen approximately 23 per cent., from 171.1 in January, 1925, to 132.5 in December, 1929. The decline resulted mainly from conditions external to Great Britain, in particular, the persistent downward pressure of the world level of prices. Owing to the intensification of the struggle for foreign trade, and the narrowing of world markets through tariff and other barriers, the prices of almost all internationally traded goods have fallen. Inevitably, British exports have shared the fall. Under the existing form of gold standard there was no escape; every movement in world prices involved a similar movement in British export prices if British goods were to remain competing in the market.

54. Since there was no means of avoiding the collapse of prices, British exporters could gain relief only through a reduction of their costs. Thus, there was little that the Bank of England could do to aid them; and the little assistance that was possible was, again, to contract credit and force down those internal prices which enter into the costs of exporting industries. The Bank was, of course, compelled to take some action such as this, purely in self-defence; for whenever the export trade falls seriously, the drain on the Bank's gold increases. But the action, in order to be in the least degree effective, must restrict trade and employment sufficiently to cause an appreciable drop in internal prices and wages. It involves, therefore, as the very medium of success, an initial phase of intense depression.

55. As in the previous case considered, measures yielding only "short-period" freedom would have been valueless for countering the effects of the fall in the world level of prices. If, in this situation, the Bank of England had adopted special temporary measures for enabling it to continue expanding credit, the effect would have been to prevent any fall of internal prices; and the export industries would have suffered more. Under the existing system the only efficient policy in the long run is the ruthless one.

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* The urgency of taking action with regard to the gold points may become greater if, through the machinery of the International Bank, they tend to become even narrower than they are now.

* Such results imply no necessary criticism of the policy of 1925. There were important compensating considerations—for example, the prospect (unrealised) of a rise in the world level of prices—which seemed at that time to justify the action taken. Further, the international situation differed materially then from the present.

(*c*) THE CREATION OF LONG-PERIOD FREEDOM.

56. So far consideration has been given only to measures which may improve the present monetary system by being, as it were, grafted upon, or fitted to it. They are not such as to change it radically, but only enable it to work more smoothly during periods of temporary external disturbance. The attempt has been made here to show that, because they in no way reconstruct the present system, such measures cannot release this country from its link with foreign policies. They leave it in a state of permanent, though to some extent concealed, bondage to them. And because this underlying servitude persists, the use of measures which yield "short-period" escape from it may be treacherous in some conditions. Independent action, based on temporary freedom, may involve serious reactions later during the enforced return to conformity. In some cases it may be well to acknowledge at the outset that conformity is inevitable and that the shortest route to it will cause least damage.

57. If this condition of subjection is to be changed and a system formed which will yield complete freedom of the "long-period" type, some modification will be needed in the actual structure of the present system. The change to be suggested for this purpose, though simple in itself, will necessarily be more far-reaching than any of the proposals so far made.

(*d*) DISCRETIONARY DETERMINATION OF THE PRICE OF GOLD.

58. The one power required by the Bank of England to set it free from all foreign interference is that of being able to fix independently the prices at which it will buy and sell gold. The grant of this power would place the Bank in a position not merely of "short-period," but also of "long-period" release from control by outside policies.

59. In both of the situations used as examples above, the external factors could have been countered, and disasters averted, had the Bank been able to declare independently the prices it would give and charge for gold. Thus if, in 1925, instead of the pre-war prices of 77s. 9d. and 77s. 10½d. per oz., new, higher prices had been fixed corresponding more nearly to the sterling exchange rate in 1924, there would have been no artificial forcing up of the sterling rate on the resumption of gold payments. There would have been no consequent bounty to foreign goods, and no handicap to British exports. And industry might have continued the expansion which had been proceeding in 1924. Again, if, during the subsequent fall in the world level of commodity prices, the price of gold in Great Britain had been raised proportionately, the fall of British export prices would have been avoided. Under any such arrangement, the effect of changing the price of gold is to reduce British prices in terms of foreign currencies, whilst leaving them unchanged in terms of sterling. To the foreigner, British goods are thus cheapened, and exports from this country are able to compete effectively with those of other countries.

60. These are relevant cases taken from recent events to indicate the manner in which the Bank may escape having its policy governed from outside. In general, it may be said that, if this country wishes to pursue any scientific system whatever, the only way in which *permanent freedom* to do this can be secured under any form of gold system is to confer upon the Bank the discretionary power to change the price of gold. It was shown earlier that all factors which destroy the liberty of the Bank produce their effect through causing an outflow or inflow of gold from its reserves. These factors need trammel the Bank no longer if it preserves the power to modify its price for gold. For whenever an outflow of gold is threatened, the Bank can check the movement by offering to sell gold for export only at a higher price. Whenever gold flows in excessively, the Bank can refuse to buy except at a lower price. Given this power, it can neutralise every external factor and pursue independently whatever policy may be in the interests of Great Britain.

(*e*) FUTURE PROBLEMS.

61. The reasons for modifying the British monetary system in the direction of greater independence may be briefly mentioned.

(i) The present form of gold standard subjects this country to the whim of any other country which happens to hold a dominant influence in world financial affairs. From the experience of recent times, the Bank of England may justly be regarded as less an instrument for the welfare of the British people than as a branch of the American Federal Reserve System; its policy has been governed, not by domestic considerations, but by events and policies in Liberty Street and Wall Street.

If a more distant view is taken, the system as applied in Great Britain will leave this country impotent before the action of any other, such, for instance, as British India, one of whose first independent measures may be expected to be that of absorbing gold extensively for the formation of a gold standard with coins in circulation. Every influence of this nature from abroad, whether affecting the amount of gold required for monetary systems, or affecting the amount of gold production, may have its repercussion on British policy; and, under the present monetary system, the country has no remedy.

(ii) The chief nations of the world are still for the most part in that state of development in which they place internal economic needs first. In the monetary sphere the threat inherent in this is peculiarly great. On the one hand, the countries which propose or take action detrimental to the rest do not as a rule even realise that their action may cause injury elsewhere; they remain, in general, oblivious of all contact with other countries. On the other hand, the injured countries, imagining themselves to be self-contained, fail to trace their trouble to its true source; they blame wrong causes and are led to attempt false remedies.

(iii) Whenever, under the present system, it becomes necessary to force British conditions into line with the external situation, the task is one for which there exist only the roughest instruments. Ideally, when there occurs a fall in the world level of prices, and this causes depression in the British export trades, the adjustment desirable under the present gold standard is one involving a fall of prices both universal throughout this country and uniform. The fall in export prices would thus be matched by a fall of domestic prices, and the costs of the export trades would be reduced. At present there is no means of achieving this. In making the attempt the Bank of England can only apply an undiscriminating restraint of credit. The first effect of this is to injure the very trades which are to be relieved; they are the least protected; and they suffer first from the contraction of demand. Thus, instead of gaining through a fall in other prices, these trades are compelled to seek a remedy through the reduction of their own wages. The readjustment to world conditions is made, in this way, through a decline in "unsheltered" wages. In brief, the action of the Bank, which is directed towards securing greater uniformity of "sheltered" and "unsheltered" prices, produces only greater divergence between "sheltered" and "unsheltered" wages. In the attempt to adjust home conditions to the external situation, it creates wider extremes of maladjustment internally.

(iv) The difficulty of forcing British conditions into conformity with the external situation will in future increase. The only satisfactory method of arriving at adjustment is, as already noted, to bring *internal* prices and wages into line with foreign levels. But owing to the growth of monopoly, in commodities and labour, these are becoming increasingly immune from influence. The industries on which pressure is most desired are precisely the ones most difficult to reach. They have developed the greatest degree of protection and are favoured with the most inelastic demand. It is conceivable, therefore, that there may come a time when the Bank is powerless to produce the changes needed to adjust the British situation to an external price movement, and that, in making the attempt, it will continue creating deeper depression in the unprotected industries.

(v) Not only is the Bank of England impotent before external policies, but it has no power to develop a new policy of its own or of the country's choosing. It is a party without initiative.

There may conceivably be some grounds of justification for acquiescing in this condition. Probably the reason mainly responsible up to the present for the acceptance of the existing monetary system is that all alternatives to it have so far seemed too radical. If this is so, the aim of reconstruction would appear to be to secure the evolution of some system which, whilst responding to the country's needs, would represent a minimum of departure from current methods.

III.—AN INDEPENDENT MONETARY SYSTEM BASED ON THE USE OF GOLD.

62. In this final section, the attempt will be made to describe the chief features of a monetary system which would confer on the Bank of England both "short-period" and "long-period" freedom from external influence and would give it wide scope for discretionary action in the development of a national policy. The description of the system will need to be preceded by an analysis of the purposes to be served by it both in the present and in the more distant future.

(*a*) THE AIMS OF MONETARY POLICY.

63. Two chief purposes have traditionally been held to be the goal of monetary policy. The first of these is to provide a money yielding a stable "standard of value." The second, expressed in its simple form, is to create an efficient "medium of exchange."

64. Associated with the latter, and recently much emphasised, is a further purpose: that of rendering the money of one country stable in terms of others. Since these three aims may conflict, the final object will be to secure some compromise between them giving the greatest total benefit. It will be convenient here to begin with the discussion of the measures needed for achieving the two more general aims above.

65. The former of the two gives rise to a certain ambiguity. The requirement, it is said, is that money should provide at all times a stable "standard of value." This may mean one of two things. It may imply that money should be maintained stable in terms of the goods it buys, *i.e.*, that a unit of money should always, from one year to another, exchange for an unvarying representative sample of goods; or, on the other hand, that it should be maintained stable in terms of effort, *i.e.*, that it should have the same command always over the factors of production: labour, capital and land.

66. It would seem impossible through any abstract intellectual process to decide which meaning is preferable. In this sphere there is only opinion; and the majority opinion must prevail. There appears to be widespread agreement that *some* form of stability is needed. And, as far as may be judged from existing custom, the majority would probably demand a money which was stable in terms of *goods*. Such an attitude is almost inevitable in any community which has been trained to found all judgments on the "right of property." When the law of the land is based universally on this principle, it is only rational for the people to desire a currency which serves the same principle and, so to speak, "respects" property. Thus, when any individual has lent property to another in the form of money, he expects and desires that, when the money is returned to him, he may obtain the same amount of property as he lent. If the money has changed in value, *i.e.*, in its command over property or goods, he will feel that injustice has been done.

67. It is conceivable that, in the future, opinions on this point may alter, and that men in general will come to believe that debts should be paid, not in terms of things, but in terms of the effort involved in producing things. In this event, a money will be desired, as a standard of value, which yields always the same command over effort. But it should be emphasised that it will be extremely difficult for such a change of view to become general, so long as all law and commercial custom are founded on the sanctity of property.

(*b*) AN INDEX OF PRICES.

68. If it may be assumed, then, that for immediate purposes a money is widely desired which yields a stable command over goods, the first practical measure required to make this possible is to establish an index showing the average of the prices of all goods bought with money. Such an index might cover the prices of goods, either in the earliest stages of production, as in the case of the wholesale index, or at the end of the process, as in the case of the retail index. The choice to be made between these two raises a series of problems; and it must depend, at least in part, on the requirements which a currency is to satisfy in respect of its second main function: that of acting as an efficient medium of exchange.

69. In order that money may perform satisfactorily its function as a means of exchanging goods, the first requirement (if the evident may be stated) is that it should be so regulated in amount as to lead to a steady flow of trade. The aim in view would be to adjust the amount of money as exactly as possible to the amount of goods available for purchase. When complete balance between the two is achieved, it means that the demand expressed through money is just adequate, and not more than adequate, to absorb the total industrial supply of goods. It is manifestly impossible to secure a perfect adjustment of demand to supply in this way; since the procedure must be by trial and error; but the degree of success must depend largely upon the sensitiveness of the index used as guide. It is for this reason that the wholesale index of prices is regarded as valuable. The price of any commodity at wholesale reflects very rapidly changes in demand and supply affecting it. Thus when an index is formed which shows the average of the prices of all commodities transacted at wholesale, its movement depicts sensitively changes in the relation of demand to supply throughout industry. The wholesale index is probably the most efficient from this point of view, and is for this reason widely favoured as one of the first guides, though not necessarily the only guide, to monetary action.*

(*c*) A FIRST CONCLUSION.

70. The foregoing discussion would clearly not be sufficient in itself to provide a complete basis for a decision on the aim of monetary policy. It does, however, show a part of the reasoning on which the following general view is founded.

(i) There is wide recognition that one aim of monetary policy should be to give as high a degree of stability as possible to the value of money.

(ii) In a country in which the "right of property" is upheld by the majority, it may be expected that the same majority will demand a money which will conform to this right and remain stable in value in terms of property or goods.

(iii) A suitable index for showing changes in the value of money, in relation to goods, is that of wholesale prices. The monetary aim, now being considered, may therefore be broadly stated as that of maintaining as stable as possible the level of wholesale prices.

(*d*) THE CHOICE OF THE "NORMAL" POSITION FOR THE PRICE LEVEL.

71. Although, for the reasons given, and for others not considered, it is felt that the future monetary aim should be the maintenance of a stable level of wholesale prices, there are grounds for regarding this as an ideal to be reached only after a certain initial process of adjustment. Stability may represent the ultimate aim, but not necessarily the immediate step desired. There may be grounds for deferring the policy of stabilisation until certain conditions now prevailing in industry have been removed, and a new level of prices has been reached.

72. More precisely, it may be urged that, whereas the maintenance of stability of the wholesale index is a desirable ultimate aim, the immediate task is to determine *at what level* the index should be stabilised, and what are the steps needed for restoring it to that level.

73. The choice of the "normal" position for stabilisation will necessarily be made on the basis of recent events. And unless the somewhat unpenetrating suggestion is accepted that, at all times, the level at which prices should be stabilised is the level existing at the moment when the stabilisation policy is approved, some considerable analysis of trade conditions will be needed. If maladjustments have arisen recently in industry as a consequence of price changes, it would be desirable to discover their nature and, in the selection of the "normal" price position, take account of the need for removing them at the outset.

74. With regard to the British situation it has been shown that the existing level of prices is far from satisfactory. There has been a persistent and most uneven downward movement since the end of 1924; and from this various forms of dislocation have followed.

75. The prices received by producers of raw materials, at wholesale, are unremunerative for a large part of industry.

76. Wholesale prices have been thrown much below retail prices, the cost of living having been little affected by the decline since 1924.

77. "Unsheltered" prices, *i.e.*, those of the export trades and others subject to foreign competition, have been pressed down in relation to their costs, and to the prices of the "sheltered" trades.

78. As a consequence, "unsheltered" wages have been thrown out of adjustment with "sheltered" wages.

79. These disparities are the direct cause of the general inactivity of industry, and of the unrest accompanying it. To stabilise wholesale prices at their existing level would thus mean stabilising, for a long period into the future, precisely those conditions which now create depression or aggravate it.

80. No monetary policy would therefore seem satisfactory which failed to take account of these conditions, or which neglected to readjust them as an initial step. The rational measure to apply would be one which would at the outset reverse the recent trend of events, and lead to the restoration of wholesale prices. It would involve the closing of the gap between "sheltered" and "unsheltered" prices, and the raising of the wholesale index again into line with the cost of living.

81. On these grounds, and more especially with a view to readjusting wholesale prices to the cost of living, the most suitable level to be taken as "normal" for the stabilisation of the wholesale index would seem to be that prevailing in 1924. The cost of living stands now (December, 1929) at 166 compared with 100 in July, 1914. Thus, if wholesale prices are to be restored to approximate adjustment with it, the level for stabilisation must be at least as high as the average for wholesale prices in 1924. (In 1924 the wholesale index numbers both of the Board of Trade and of the Economist showed an average of 166.2.)

82. The choice of the level of 1924 as "normal" would appear to be appropriate for several reasons. Not only would it mean restoring the relationship between wholesale and retail prices, but it would permit all the adverse steps of the past five years to be fully retraced. It is urgent that the journey should be travelled back in every detail; and for this purpose the distance passed over should presumably be about the same. Maladjustments have been produced of a definite magnitude; and they seem to call for readjustments of a corresponding magnitude if the final situation is to be one of permanent equilibrium.

(*e*) DISCRETIONARY CHANGES IN THE PRICE OF GOLD.

83. The proposed "immediate aim" of monetary policy, and the proposed "ultimate aim", may now for convenience be combined for expression in the form of a single objective: that of stabilising the index of wholesale prices around the level prevailing in 1924.

84. In order to achieve this end, a certain permissive action would be needed, and a certain positive action. The positive action would be to secure the expansion of credit. The essentially permissive action, now to be discussed, would be to enable the Bank of England to modify its price of gold.

85. In practice, it would prove impossible to restore wholesale prices in this country to their 1924 position without some change in the Bank's price for gold. Theoretically, indeed, a world-wide expansion of credit might lead to the restoration of all prices including those of Great Britain, without any change in the quotations of Central Banks for gold. But in view of the deflationary tendency of the policies of foreign countries and the probable inadequacy of the world's gold reserves, this may be ruled out as a practical prospect. In any event, the *immediate* restoration of British prices to the 1924 level would involve some change in the price of gold quoted by the Bank of England.

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* There are innumerable grounds on which different indexes of prices may be commended, and it would exceed the scope of this paper to attempt a full discussion of them. Other incidental advantages from the use of the wholesale index number may, however, be noted. (a) The index covers substantially the whole of the physical product of industry, whether destined for absorption by producers or by final consumers. (b) It comprises commodities which, being in a relatively simple state, are more readily standardised and graded than those comprised in indexes covering later stages of production; thus comparisons based on its movements or on the differences it reveals in different markets are less misleading. (c) It is the most readily subject to influence by the banking system. (d) It comprises many commodities which enter international trade; the stabilisation of wholesale prices in one country thus assists the stabilisation of wholesale prices in another; and the wholesale index is capable of providing a basis for a world policy of stabilisation.

86. Thus, the permissive action required for giving effect to the present proposal would involve the introduction of a Bill including a clause for conferring on the Bank of England the power to change, at its discretion, the prices at which it would buy and sell gold. Under such an arrangement the Bank would declare its prices weekly, just as it now declares its minimum discount rate weekly.

(*f*) THE EXPANSION OF CREDIT.

87. The effect of conferring this discretionary power on the Bank of England would be in certain respects more than merely permissive, in that it would itself promote indirectly the recovery of prices. As soon as the Bill enacting the proposal showed a reasonable prospect of being adopted by Parliament, there would follow a movement in the sterling exchange rate, carrying it probably to a position near the expected purchasing power parity of sterling at the new (1924) level of prices. From this would ensue certain results affecting prices.

(i) If the exchange rate were to fall, say, 12 per cent., the immediate effect would be to cause all imports into Great Britain to rise in price (in terms of sterling) by the same amount. By thus rendering British home products *relatively* cheap, it would cause the markets of the British producers to expand, and lead to some partial recovery of their prices.

(ii) Similarly, the exchange rate movement would cause all British exports to become 12 per cent. cheaper to foreigners. An increased demand for British goods might be expected to follow, tending to raise their prices in terms of sterling, though not by the full 12 per cent.

(iii) With a fall in imports and a rise in exports, there would be a tendency for gold to flow inwards, a tendency which the Bank of England might reinforce by fixing its purchase price for gold rather more than 12 per cent. higher than the present price* On the basis of the additional gold the Bank would then be in a position to extend credit to industry and reduce the Bank rate. This, in turn, would produce a further reinforcement to trade in the form of expanding markets and rising prices.

88. During the process of recovery, the rise of prices would be mainly in those trades which are now most seriously depressed. The direct benefit from the exchange rate movement would be concentrated entirely on the export and other "unsheltered" industries. Virtually all wholesale prices would rise, whereas the cost of living, being composed largely of "sheltered" prices would tend to show little movement.

(*g*) THE ULTIMATE AIM.

89. The measures so far considered have been concerned primarily with the removal of certain maladjustments in industry, so that the way might be prepared for the introduction of a "long-period" scheme of stabilisation. The deliberate, final aim, it has been urged, is to create a money which will act both as an efficient "medium of exchange" and as a stable "standard of value." Hence, after the process described above had run its course, and the 1924 level of prices had been restored, the central problem would be to preserve stability of wholesale prices around this approved "normal" level.

90. Amongst the various aspects of this problem, the most important is probably that of securing a sound compromise between price stability and the further aim, mentioned at the beginning, of maintaining this country's currency stable in terms of others.

(*h*) EXCHANGE STABILITY.

91. There is little need to emphasise the value of a stable rate of exchange for any country with a large foreign trade; in the case of Great Britain the situation is such that a considerable degree of price stability might with advantage be sacrificed in the interests of exchange stability.

92. Related to the present proposal, this would imply that whenever the Bank of England, wishing to prevent an external price fluctuation from disturbing the British price level, felt the need for changing its price for gold, it would delay this action as long as possible. For, with every change in the price of gold—or, indeed, even the prospect of it—the sterling exchange rate would alter. The Bank would thus tend to hold its discretionary power in reserve, possibly allowing a divergence of wholesale prices of as much as 5 per cent. from "normal" before taking action affecting the exchange rate.

93. Given such latitude, it is conceivable that at no time again would it be necessary to change the Bank's price for gold, nor therefore the exchange rate, once the 1924 level of wholesale prices had been established. Thereafter the need for action of this kind would depend essentially on the movement of the world level of prices. If the Bank of England were to succeed, through its continued attempts to secure international co-operation, in arriving at stability of world prices, it would be able to withhold permanently its power to alter its price for gold.*

94. In these conditions the type of gold system which would emerge would be virtually the same as the gold standard now being operated. The one significant difference would be, however, that, *in case of emergency*, the Bank would always have at its disposal a means of preventing itself from being dominated by external influence; it would have always in reserve the power to modify its price for gold.

(*i*) THE LIMITS OF DISCRETIONARY POWER.

95. If it were desired to give guidance to future generations of bank directors as to the range over which they might allow the British price level to fluctuate, elastic limits might be set by imposing upon the Bank the obligation to increase or decrease its buying and selling prices for gold by 0.5 per cent. whenever, at the beginning of any month, the Board of Trade wholesale index number stood more than, say, 7 per cent. below or 7 per cent. above the "normal" (1924) level, and continue such monthly changes until the price level had been restored within the limits indicated.

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* The inflow of gold would not perhaps be realised immediately on the adoption of the scheme, partly because, over the short period, there may be a considerable inelasticity in the demand for British goods competing with foreign goods, and partly because there would at the beginning of the scheme be an outflow of international short-term investment. It may be noted, however, that these would be short-period phenomena. In the case of an outflow of short-term funds, the greater its volume initially, the more rapidly would it come to an end; by causing a swift movement in the exchange rate beyond the probable purchasing power parity of sterling, it would produce a situation in which foreigners might re-invest in sterling with a prospect of additional gain when the exchange rate recovered.

* The Bank might fortify itself still further by adopting measures for increasing its "short-period" freedom, including, in particular, the widening of the gold points and the maintenance of foreign securities for pegging the exchanges. Such measures might be safely used to their fullest limit in a system such as this, which yields "long period" freedom.

96. If such a proposal were to be adopted it would act not only as an indication to the Bank directors, showing them that their discretion was wide and its limits elastic, but also as an indication to the general public that no change need be expected in the price of gold until the wholesale price level had diverged considerably from its "normal." This would assist the Bank in forestalling speculation; for whenever it wished to make changes in the price of gold within the limits of its discretion, it would be able to act always in advance of the market's expectations.

(*j*) THE INTRODUCTION OF THE PROPOSAL.

97. If a monetary system for establishing an independent policy of stabilisation were desired, involving the continued use of gold, something akin to the above proposal would be needed. Its adoption would involve the passage through Parliament of a Bill containing the following provisions.

(i) A declaration of the purpose of the Bill, the nature of the index of commodity prices to be used, and the base-period to be adopted as "normal" for stabilisation.

(ii) The grant of discretionary power to the Central Bank to determine the prices at which it will buy and sell gold, and an indication of the instruments which would be regarded as legal tender for the purchase of gold at the Bank.

(iii) An indication of the percentage difference which must be maintained between the buying price and the selling price, say, 0.5 per cent.

(iv) The removal of the limitation on the fiduciary note issue.

(v) A statement of the range over which the price level might be allowed to move before compulsory changes in the Bank price for gold would be required.

2853. *Chairman*: I think, Mr. Bellerby, you have made a special study of the topics with which this Committee is concerned?—Yes.

2854. Just as a matter of record, I think you are a Fellow of Gonville and Caius College?—Yes, I am a Fellow of the College.

2855. And you have recently been elected to the Chair of Political Economy in the University of Liverpool?—Yes.

2856. You take up your duties there in October, I understand?—Yes.

2857. In what capacity was your attention directed to these topics?—My approach has been mainly from the social point of view, that is to say, I began the study of monetary problems essentially because I was interested in the question of unemployment. I began studying it actually at the International Labour Office.

2858. I just wanted to know in what way you have been brought specially into contact with this type of subject?—I was in the Unemployment Section of the International Labour Office at the time of its special enquiry; and we felt then, in the attempt to trace back the causes of unemployment, that probably the most responsible factors were those related to monetary policy, or credit policy.

2859. I see. In the course of your investigations you had come to realise that there were some fundamental causes at work in the social structure which you thought on investigation might disclose the real causes?—Yes. I think our essential background was this, that unemployment is due primarily to lack of purchasing power, and the source of purchasing power is the general banking and monetary system.

2860. So that your approach to it was really through this avenue, that studying the question of unemployment and its symptoms you found it necessary to explore the monetary system as possibly being one of the causes to which unemployment is due?—Yes, precisely.

2861. That was your approach to it. And your main thesis, as you have just stated it, is that unemployment is due to want of purchasing power?—Essentially.

2862. Not to want of demand for goods but to want of ability to pay for goods?—Quite. The demand exists at all times in the sense that want exists.

2863. The monetary means to satisfy that demand are wanting?—Yes.

2864. I wish you would develop that a little bit—how your own mind has worked upon it. It is always interesting to hear a man tell you how he has arrived at certain conclusions. I should like to know how your mind has worked on that problem?—I think I arrived at it logically through the study of the trade cycle. Unemployment, at any rate, in its origin, is one of the symptoms of the general upward and downward movement of trade which we commonly call the trade cycle, and unless it is possible to rule out these fluctuations of trade it would seem equally impossible to avoid depressions of industry and employment.

2865. Of course, unemployment is not entirely a new problem. Before the War there were unemployment cycles?—Also trade cycles.

2866. But since the War we have had more violent phenomena?—Yes. In the period 1918, 1919 and 1920 we had a phase of continuous expansion of trade, assisted and perhaps stimulated by credit expansion from the banking system. That continued until it was decided to put a definite check to the expansion of credit.

2867. Was that in your view an undesirable state of affairs?—The inflation certainly was unhealthy, but the check was necessary. Possibly it might have been better if the check had come at an earlier stage; but that, of course, was dependent largely upon the necessities of Government finance. Then the depression which followed seemed to be due to a large extent to the inflation preceding it, to the fact that large stocks of goods were accumulated in the anticipation of later purchases; and when there came the check to the expansion of credit and, therefore, to the expansion of purchasing power, that meant that these reservoirs of goods flooded the market, so to speak, and for the most part became unsaleable. So long as they existed one had an intense phase of depression. Since that time, that is, since the worst period of depression in 1921, there has been a certain degree of recovery owing to the clearing of those stocks from the market; but the depression has continued, due in part to the need for protracted or continued deflation, and due to the progressive forcing down of the world level of prices mainly affecting our export trades. Those two factors I feel to be chiefly responsible for unemployment, that is to say, the contraction of credit, and the fall of prices which has been continued as a consequence of the general contraction of world markets and the depression of world prices.

2868. You indicated that in your view the contraction of credit was a necessary step?—Well, a check to the expansion I ought to have said.

2869. And that contraction had, as its inevitable concomitant, unemployment?—Immediately following it, yes; inevitably, I think.

2870. Is it your view that these oscillations of employment and unemployment, prosperity and depression, are susceptible of alleviation, if not of cure, by monetary expedients?—Yes, I feel that if it were possible to regulate the supply of credit so that it more closely conformed to the expansion of trade, so that you had neither inflation nor deflation, neither rise of prices nor fall of prices, you would tend to smooth out this trade cycle and to that extent diminish the intensity of unemployment.

2871. Is the practical objective stability of price?—I rather regard the price index as, so to speak, the evidence, the guide, indicating what is happening in trade, and the stability of price indicates that you have achieved stability of trade. There is a purpose, of course, in maintaining the price level itself stable, in that when the price level remains stable you then have a fairly stable value of money.

2872. You are thinking of stability of prices in terms of the world, not stability of internal prices?—It would be desirable to have stability of world prices, but if we cannot have that, then we should attempt to reach stability of internal prices through some independent action, I think.

2873. *Professor Gregory*: Are you prepared to sacrifice the maintenance of international parity of exchanges in order to get stability of prices at home?—To a certain extent. That is to say, if there occurs an extreme fluctuation of world prices, say, more than 5 per cent. from the previous normal, then I think it is about time to consider sacrificing exchange stability for price stability.

2874. And that practically involves in a concealed or open form dealing with the problem of the gold standard?—Yes; temporarily.

2875. I am not questioning the expediency of doing so. I want to know what is in your mind?—Yes.

2876. *Mr. Keynes*: You would really be departing from the gold standard to the extent that prices abroad forced you to?—Yes.

2877. May I ask you a question on the division between the temporary remedy and the permanent? I read your Paper on the whole as leading up to the conclusion that there is no choice between drastic use of the traditional method to cause unemployment till wages fall, and your long period method, and that you doubt whether the short period expedients are capable of meeting the case. Is that right?—Yes. I feel particularly that no substantial assistance can be given to the export trades, which are the most seriously depressed, through any short-period expedients based on the existing structure of the banking system.

2878. You would say we could not get over the present situation by short-period methods. You are not merely saying that even if we get over the present situation it will not be long before there is another trouble of some sort?—I think I say both.

2879. I was wondering how far you would press your point as applied to the particular trouble we are in now?—I regard my long-period proposal as the only one likely to provide a thorough remedy in the present.

2880. *Chairman*: Is it your view that we shall continue having cycles, that at the present time we are, to change the metaphor, in the trough of the wave, and in the ordinary sequence of events we will get on the crest of the wave again without resorting to any special expedient? I think that is the point that is so interesting, whether we are in such a crisis that we have to resort to something special, some heroic remedy?—Yes, quite.

2881. Or whether we are in the usual oscillations, but this happens to be a little bit deeper than we have previously experienced—to use a phrase of Mr. Keynes that has already become historic, that we are in a period of painful readjustment. Do you take the pessimistic view, that we are in a period of painful readjustment, but we are going steadily down, or that we may anticipate that we will get up again if we go on in our common humdrum way, taking the bad time with the good time?—The difficulty is that it depends on factors which are really scarcely predictable.

2882. *Mr. Keynes*: As I understand the witness he would maintain that the only way to effect adjustment is by way of an alteration of the exchanges?—At the moment, yes.

2883. *Chairman*: Supposing we do nothing, would you expect us to recover, just as we have recovered in the past by not doing anything?—No, I should not expect recovery within five years, I think, on the most optimistic reckoning.

2884. *Mr. Bevin*: You do not expect to recover within five years unless something is done?—Unless something drastic is done.

2885. *Mr. Tulloch*: And if nothing is done you think, according to previous cycles, we should get out again? You use the expression "smooth out?"—I feel there is no means under the existing form of gold standard.

2886. Which will put us right?—Which will put us right.

2887. Even if we wait?—Even if we wait.

2888. *Mr. Bevin*: Something special has to be done to get even the gold standard to work?—Well, there is the possibility of going off the gold standard temporarily, which is, in substance, my suggestion.

2889. *Mr. Keynes*: What you say about the export trade is applicable to our present situation. We are in disequilibrium with the rest of the world, not due to a cycle. Your remedy is specially applicable to the present situation, because it will help the export trades?—Yes.

2890. That application is rather in its relation to this present situation than to the future situation?—Yes, its application to the future situation would be that if there arose a shortage of gold for any reason whatever, the method I suggest, that is, to change the price of gold, would be one way of meeting it in this country. Other ways would involve international action, which we can never guarantee.

2891. I see very clearly that the remedy which you prefer would be more helpful to the export trades than any other method would be at the moment, because it would directly raise their prices. Therefore, if we feel that we must get back to a very big level of export trade, I see that this, perhaps, is the right solution. But is it your opinion that we need insist on having this large volume of export trade?—No; my difficulty mainly is in seeing what other trades we can expand.

2892. Of course, if we are going to invest abroad on the old scale it must be the export trades we develop, but if we do not invest abroad on the old scale it might be all kinds of trades, might it not?—Yes, but it is extraordinarily difficult to discover in what trades we might expand internally on a large scale.

2893. Those trades on which we spend our money, whether on consumption of goods or capital goods at home, whatever those trades produce. Why should we not direct the same amount of purchasing power to them which we now direct to foreign investment, and which has to find its outlet in exports?—Is not the difficulty that for our present consumption we have to import so many items which form part of the ordinary budget?

2894. *Professor Gregory*: They would have to be paid for in any case by the interest on past investments. New investments do not immediately add to the capacity of the country to pay for its imports?—No.

2895. *Mr. Keynes*: Under present conditions we want a surplus of £150,000,000 sterling. If we had your remedy and it stimulated the export trades it might raise the surplus to £200,000,000, but is it *essential* that we should raise it to £200,000,000?—No. It seems to me that is the most *rapid* way of effecting the solution. Any alternative involves, first of all, discovering new industries which will supply home needs, and, secondly, transferring labour and capital from the old industries to those new industries. That, I would say, would be normally a long task.

2896. It may be we would rather change our industrial habits than change our financial habits?—That is what it would involve.

2897. That is really the choice?—That is really the choice.

2898. *Professor Gregory*: I am not quite certain after this discussion what your proposals are directed towards. It seems to me there are three points, and I am anxious to get the evidence clear. First of all, there is the present situation, which you describe in negative terms as being a situation which cannot in any way be cured by the use of Bank Rate. There is, secondly, the normal short-run period which will arise, or might arise, at any time in future, even supposing our prices were on a parity with world prices. Thirdly, there is your long-run policy. Are your short-run proposals directed immediately to the present situation, or have they general application?—I had only in mind a distinction between the immediate situation, which one would desire to escape through some fairly heroic measure, and the long-run trend to which the same proposal would be applicable, but which raises a problem distinct from the short-run immediate problem.

2899. How do you think the immediate situation of this country is going to be cured by your short-run proposals which you have outlined in paragraphs **30** to **46** of your memorandum? The immediate problem in this country is that our existing price level is too high in relation to the existing exchanges. I suppose we will all accept that. What I want to find out is how your general short-run solutions would apply to a situation like that?—I do not think they apply a great deal. I do not think myself that much can be done, through these short-period proposals, to remedy the existing position; that is to say, these proposals involving the widening of the gold points, the pegging of the exchanges at the gold export point, the placing of a temporary embargo on investment abroad, and the launching of schemes of public enterprise by the Government. Those, I think, would be valuable for occasional, short-period emergencies, at all times in the future, but I do not think that they would go very far towards amending the present situation.

2900. *Mr. Keynes*: Might they not give us time for other factors to work? That was a point that I was not sure that you had sufficiently clear. If we are ten per cent. wrong at the moment, and if we are going to remain ten per cent. wrong, none of your short-period methods can get us out of our trouble. All they can do is to give us time during which to square this ten per cent. discrepancy by other means?—Yes.

2901. There are three possibilities of other things that might be operating. First of all, there is the increase of efficiency. An increase of the order of ten per cent., is something which we cannot accomplish very rapidly, but we might make a considerable hole in the ten per cent. over five years. It would not be exaggerating to say that we might increase efficiency by one per cent. per annum, would it?—No, certainly not.

2902. It might be that foreign prices would go up and that we might organise international forces for the purpose of raising foreign prices. That, again, would be something that would take time, but it would not be hopeless to anticipate that the price level of foreign countries five years hence might be higher than it is now, would it?—I should not like to regard it as a probability.

2903. A hope, anyhow?—Yes.

2904. Might it not also be the case that at present, owing to the troubles we have been going through, profits are abnormally low in the country and capital is discouraged, and that after more normal profits had been enjoyed for, say, three years we would find a greater amount of enterprise to absorb our activities? It may be the present low level of enterprise at home is not an index of possibilities, but an index of what business men feel after having suffered losses for five years?—Yes. Those possibilities seem to depend a little one on another, so to speak.

2905. They do.—If you were to get a rise in world prices then you would get an improvement in the profit situation.

2906. Still, if we were to discard your second solution as too radical, you would consider that your short-period methods would give us a sufficient margin by which we could pull ourselves up for the time being with more normal employment in the hope that these other factors in the situation would operate in three to five years?—Yes, I think a certain improvement might be made with the aid of these short-period methods, and I think it would be preferable to apply them rather than not to apply them. My only doubt is what might happen at the end if things do not go as forecasted in world movements.

2907. Would it be any harder to adopt your more drastic solution then than it is now?—I should hope it would be easier than it is now, because the situation would probably be worse then than it is at the moment; people would then be more prepared for something drastic. I hope I am not attempting to discard these short-period proposals as being of no value; all I am saying is that *relatively* they are of much less value than the other remedy which I propose later in the paper.

2908. I thought the effect of your paper was that you classified and explained the short-period remedies admirably, and then at the end you wrote them down as though you did not value them very much?—That was partly to get due emphasis for the later, relatively much more important proposal; it was to get the emphasis on the second proposal, which I do think is a thorough-going remedy.

2909. *Mr. Brand*: Is your main proposal to depreciate the value of sterling?—Yes.

2910. In order to return to 1924 prices?—Yes.

2911. That is the starting point?—Yes.

2912. And then you would depreciate or appreciate the value of sterling in the future according to what is necessary to keep prices stable?—Yes.

2913. Therefore, foreign bankers, or anybody else lending money from abroad, would lose a certain amount, to start with, by our return to the 1924 standard?—They would, yes.

2914. Then in future there would be an uncertainty attaching to placing money in London which would not apply to other financial centres?—That is true.

2915. Foreign lenders would not be quite sure at what value they would get their money back?—That is true.

2916. Therefore, to that extent it would act as a deterrent to foreigners placing their funds here, in comparison with other financial centres?—Yes.

2917. *Mr. Lubbock*: Would you not find that as soon as a Bill was introduced into Parliament to give the Bank such power, every foreigner would go to the Bank and try to get his gold?—He would for a short period.

2918. *Mr. Tulloch*: Should we have under your system a bill on London as an international world currency?—I think the tendency would be for us to lose that position.

2919. It would, would it not, because of the considerations which Mr. Brand has mentioned? People would never be certain what they were going to get?—They would be certain of it for a very considerable period of time, in that one would propose to maintain the exchanges as stable as possible and keep them stable perpetually if external prices remained steady.

2920. They would never know. The methods you propose are to be used if needed; therefore the rest of the world would never know what we were going to do, and there would always be that uncertainty, would there not?—Yes, that uncertainty would exist.

2921. *Mr. Keynes*: You would say that, at present, the certainty is on the side of money, and the uncertainty on the side of commodities?—Yes.

2922. And you would reverse that, so that in the future the uncertainty would be on the side of money and the certainty on the side of commodities?—Yes. Under the scheme I am proposing there would be possibly less exchange stability, but definitely greater stability of commodity prices.

2923. *Mr. Brand*: But, in fact, it would be a tremendous change?—That all depends on the fluctuation of the world level of prices.

2924. We were told by an expert witness here that he assumed that gold would appreciate in value a great deal. As I understand your scheme, it would permit us in spite of this to keep high and dry on 1924 prices?—Yes.

2925. While in the rest of the world the level of prices gradually sunk below ours until they became very different?—Yes.

2926. And it would be a matter of impossibility afterwards for us to get back to the world level of prices, if we wished to, without a further tremendous change?—Yes, it would mean for us a desertion of the world level of prices.

2927. We now favour a fixed exchange and fluctuating prices. You would favour a fluctuating exchange and fixed prices?—Unless the two could be secured together.

2928. Yes, but that depends on external circumstances and not upon what we can do in this country; we cannot determine the world level of prices?—Except that, indirectly, we may be able to secure a willingness on the part of other countries to aim at stability.

2929. Do you think a fluctuating exchange, quite apart from its disadvantages for London as a financial centre, is also a deterrent to export trade?—The export trade might suffer if the fluctuations were frequent, but in the proposals which I have made there may be no fluctuation in the exchange rate at all, and there would not be if there were no very wide movement in world prices. Secondly, even if there were a very wide movement in world prices that would involve an exchange rate movement probably only once in two years.

2930. The uncertainty would be there?—There would be no uncertainty unless the world level of prices were showing considerable fluctuation. In that case, it would be very desirable to escape from the world price movement, and the inconvenience of a change in the exchange rate would not seem to be too heavy a price to pay for it.

2931. *Professor Gregory*: Your scheme would certainly discourage loans by foreigners to this country, would it not?—Yes, I think it would diminish the extent of international banking. I do not suggest here that there would not be some loss to the City.

2932. *Mr. Bevin*: Is your point that you cannot see any solution of the unemployment problem while at the same time maintaining the City as the centre of finance?—I think it is to a certain extent a question of weighing the interests of one group against those of others.

2933. And the choice before us is a choice between the useful employment of this huge number of unemployed and the maintenance of the City as the centre of finance?—That is a part of the issue unquestionably, inevitably, I think.

2934. *Mr. Brand*: But your remedy would hit not only the profits of the City, but the wages of the worker as well; it would be equivalent to a reduction in the wage level?—I think that the cost of living would probably not rise to any great extent, probably not more than 4 per cent. or 5 per cent. at the most, and if at the same time one got an expansion of production and employment in general——

2935. *Mr. Bevin*: Therefore, the total income for the 52 weeks would be higher?—Yes.

2936. At present the wage level is high, but the total income is low?—Yes.

2937. Therefore, purchasing power is down?—Yes.

2938. *Sir Walter Raine*: Have you studied the French position at all?—No, except that it appears to be about the reverse of ours.

2939. Is there anything in the French position which you would suggest we could adopt in order to reduce unemployment? You will have seen the latest figures—1,798 people out of work, the total unemployed in the whole of France. That is returned by their Labour Exchanges, and until recently they have not had more than 1,000, whereas we have not had less than 1,000,000 during the last four years, except for a few weeks. Is there anything that France is doing, or has done, to cause that low state of unemployment, that we can adopt?—I do not know that we can follow what they have done, except in this modified form that I suggest. I think the reason for France's favourable position is that she has arrived at stability *via* a process of inflation. In other words, throughout the period of inflation there has been, of course, high employment, and then when stabilisation was effected there was no attempt to appreciate the franc seriously, so that she secured stability with a fairly high level of employment. Another factor in the situation is that in France the wholesale price level is actually above the retail price level as compared with the pre-War position, whereas in this country the wholesale price level has been perpetually depressed below the retail cost-of-living level. That is perhaps not a cause; it is simply significant of the fact that French manufacturing industry is vigorously active whilst our is being depressed.

2940. *Mr. Lubbock*: Is the level of real wages as high in France as in this country?—Nothing like as high.

2941. How would you compare it?—I think that the French wage level is not more than 75 per cent. of the British wage level, though, of course, that was more or less the pre-War position as well.

2942. *Chairman*: How far would your system reduce real wages?—I should say that it would not reduce real wages in the industries now receiving high wages by more than 4 per cent. or 5 per cent., that is to say, by the amount of the expected change in the cost of living, and that so far as the other industries were concerned there would probably be a rise in real wages owing to the possibility of paying somewhat higher wages when a high level of efficiency and production is reached.

2943. *Professor Gregory*: That is to say, in the unsheltered trades there would be a tendency for wages to rise?—Yes.

2944. And that is one of the desirable objects?—Yes.

2945. My difficulty is to see how you are to prevent money wages from rising, assuming employment improves under this scheme, and thus preventing better profits being made?—I should have thought that, in those industries which are at present fortunate from the point of view of employment and wages, there would be no tendency for wages to follow the moderate rise in the cost of living, and if that were so, then one could afford a certain rise of wages in the other industries, given an increase of efficiency and production.

2946. *Chairman*: I must say I have great difficulty in understanding the thesis. At the present moment in the world's competition we are falling behind, our export trade is diminishing; do you suggest that we should in effect raise the cost of our production and if so how will that assist us?—No. Any rise of wages would be a consequence, not a cause, of better trade. The suggestion is that we should cheapen our wares to foreigners through a fall in the exchange-value of sterling. Foreign markets would improve; then, as a consequence, as a result of increased production and efficiency, there might be a recovery of wages in export industries. The rise of wages, if it happened, would be the result of improved trade.

2947. Yes, but how are we to get back by your expedient the trade we have lost?—By first of all depreciating the pound in order that British goods may be cheaper to the foreigner.

2948. Let us take them by stages. First of all, you depreciate the pound. Does that mean that every pound that is paid in wages would have less purchasing power than it has at present?—No, I ought to have said depreciate the pound in terms of other currency.

2949. In exchange?—Yes.

2950. *Mr. Keynes*: Is not your order this, that we should first of all depreciate the exchange; that is tantamount to reducing gold wages, so that for all practical purposes our goods cost 10 per cent. less to the foreigner?—Yes.

2951. Then you believe that the internal price level, taking goods as a whole will not rise 10 per cent. because only some of the goods consumed are imported, so that you estimate the rise of the internal price level to the consumer at more like 4 per cent. or 5 per cent.?—Yes.

2952. In the case of the sheltered industries you would expect them to suffer in real wages as a consequence, but in the case of the unsheltered industries the larger scale on which they would be able to operate would so increase their efficiency that you could make up their wages by the 4 per cent. or 5 per cent. so that their real wages would not be diminished?—Yes.

2953. You would thus have something nearer equilibrium between wages in the sheltered and the unsheltered industries?—Yes.

2954. Then on top of that you would expect to increase the volume of employment, so that even allowing for the fact that real wages in some groups were reduced the working-class level of income as a whole would be larger?—Yes.

2955. *Mr. Bevin*: And more constant?—Yes.

2956. *Chairman*: Would not the effect be this, that in regard to our international obligations, which are in gold, we should have to pay more?—We should have to pay more in terms of our own currency.

2957. *Mr. Brand*: All payments due to us in sterling would really be worth 10 per cent. less?—In goods, you mean? I think the position as regards all obligations together could be expressed in this way. In sterling, we should lose on gold debts owed by us; and we should gain on gold debts owed to us, as well as on all investments in foreign currencies. There would be a net gain in sterling, which might not be a gain in goods, since sterling prices would rise slightly and import prices considerably.

2958. *Professor Gregory*: Supposing one looks at your proposal in comparison with other proposals. This is in effect a demand for the rejection of the gold standard. I do not see any advantage in your fluctuating gold prices as compared with the rest of the world, unless you reject the gold standard altogether. What have you to say to that?—(*Witness*): Is it not mainly a matter of definition? (*Professor Gregory*): The definition in this particular case is rather important.

2959. *Mr. Keynes*: Is the object of your proposal to minimise the fluctuations of the exchange?—Yes; if, after the first movement, one can arrive at a situation in which both exchanges and prices remain stable, that is what one is aiming for.

2960. *Professor Gregory*: I think your scheme varies between two extremes, the less the number of changes in the world price level the more your scheme approaches a scheme for permanent devaluation of the gold standard?—Yes.

2961. Do you think your scheme has such inherent advantages that one would prefer it over permanent devaluation?—I would prefer this proposal of my own, because it reserves always the power to change the price of gold.

2962. In your scheme you would have the difficulty that if you did not make frequent changes in the value of gold, British costs of production might over a short period of time be out of touch with world costs, might they not?—Yes.

2963. And under those circumstances you would have slumps if our costs were above world costs, and booms if our costs were below world costs?—Yes.

2964. You do not regard that as a disadvantage?—It is a question of how far you go; you have to make a compromise.

2965. Do you not think that one of the disadvantages is the uncertainty as to the time that the Bank will act. Supposing you have been keeping the price of gold between 85s. and 90s. and our costs at that level are out of touch with world costs, do you not think it would add to the other difficulties of the situation if business men, bankers and others did not know when the cost of gold was going to be altered?—No, I feel that what it would mean in most instances would be this: People would feel that there was a prospect, at all events, of the situation being remedied, and because there was that prospect they would tend to develop their enterprise more readily than if they were committed indefinitely to this position of adverse costs.

2966. I would not quarrel with you there. I am not now thinking of the present situation in which we are clearly out of line with world costs?—No. You are speaking of the future position?

2967. Yes. In the future position, supposing that we get our costs down to within reasonable touch with the world level our manufacturers would only be exposed to the same general difficulties to which world manufacturers are exposed?—(*Witness*): Yes. (*Professor Gregory*): Under your scheme they would be exposed to the uncertainties of the domestic situation in this country before we were back on the gold standard. Assuming we have got over our present temporary difficulties—I am assuming that in the whole of my questions—the position of the manufacturers in the United Kingdom as regards costs would be no better and no worse than that of manufacturers anywhere else, whereas under this scheme they would be subject to the double difficulty of Bank Rate policy, and Bank policy in terms of gold.

2968. *Mr. Brand*: I see quite clearly the first step, which is to get over the abnormal difficulties by going back to 1924 prices, but after that your policy seems to involve for ever an element of uncertainty in the minds of all business men who are dealing with foreign countries. At the present moment they have the uncertainty of the exchange between the existing gold points and it may be that your plan, if everything went well, might not involve much greater changes than that. But nobody would ever know; no business man can foresee the trend of world prices, and there would be always a risk that some bargain or contract he made would turn out substantially different from what he expected. That uncertainty would exist with regard to every foreign transaction involving any period of time?—Yes. I think that owing to the need for summarising the proposal I did not indicate how the Bank of England could show its intention for some considerable period of the future, and not only maintain stability of the exchanges but indicate to the general business world that it *intended* to maintain stability. If, for instance, it were itself to deal in forward exchange, that is to say, buy dollars 3 months hence and sell dollars 3 months hence at prices fixed now, that would indicate to the business world its intention to maintain the exchange stable over that period.

2969. Yes, but three months is not long; it is important in some cases, but in a great many cases it is not. (*Mr. Keynes*): Under Mr. Bellerby's system you would have a much more stable Bank Rate. Supposing his system had always been operating, cannot you see the appalling consequences that would be attributed to the present system—never knowing what Bank Rate was to be? (*Mr. Brand*): Yes, but you would not expect to get more than a three or four per cent. Bank Rate difference, but here the uncertainties might be much greater. When you complete a transaction in currency you have less money for good and all; it is a question of getting your capital back. (*Mr. Keynes*): A change from 3 to 7 per cent. is 133 per cent.; vastly greater than anything Mr. Bellerby is suggesting. (*Professor Gregory*): I cannot see how Mr. Keynes can think that a managed currency will have greater stability of Bank Rate than we have now. It seems to me that under a managed currency the aim is to restrict the movement of prices beyond normal, and I think if you force that upon a Central Bank it will be an extremely inelastic policy. (*Mr. McKenna*): Would not the policy be to regulate the quantity of credit rather than change the Rate?—(*Witness*): Yes. The Bank Rate in pre-gold-standard days remained unchanged at 4 per cent. for about two years, that is, during the period 1923 to 1925. (*Professor Gregory*): I thought it was a criticism of the Bank of England that Bank Rate varied even on the pre-war gold standard; I should have thought a managed currency was utterly impossible without facing fully the implication that it might require very frequent changes in Bank Rate. It is quite true that the Central Bank can regulate the volume of funds, but I think Mr. McKenna will agree that an open market policy involves a restriction of the quantity of credit. (*Mr. McKenna*): Not necessarily. (*Professor Gregory*): I quite agree that if you get over the gold standard you can do what you like with the Bank Rate, but the proposal is not only that we should get over the gold standard, but maintain our price level at approximately the 1924 level.

2970. *Chairman*: Are you in favour of entrusting these increased discretionary powers to the Bank of England?—Yes, I think they are a body eminently suitable.

2971. Do you think they are the best body to take decisions of that nature?—I think that any body entrusted with the control of the monetary system would include the majority of the persons now on the Bank Court, whatever happened.

2972. It would be placing a very heavy responsibility, would it not, on the Bank, in addition to that already carried?—I think we must inevitably throw responsibility on to the Central Bank, if it has to assist in any degree the improvement of the position in the country.

2973. There are other devices, are there not, whereby Central Banks may assist the increase of credit?—Yes, I have discussed some of them under my short-period proposals.

2974. *Mr. Bevin*: Would the new responsibility be any greater, do you think, on the Bank of England than it is now when they have to decide on raising the Bank Rate and when they know that that is going to throw a good many of their fellow countrymen into unemployment?—Well, it would perhaps in this sense, that now they are virtually compelled to take that action, they cannot get away from the necessity of imposing a higher Bank Rate when external conditions are adverse, whereas in the future they would have discretion; they would have the responsibility in the future of deciding between alternatives.

2975. *Chairman*: You mean at present they more or less register decisions which they are compelled to take?—Yes.

2976. Whereas this would be a discretionary power to be exercised as and when they thought proper?—(*Witness*): Yes; that would be the distinction. (*Chairman*): They might make a wrong judgment.

2977. *Mr. Brand*: Referring to Mr. Keynes' point about the Bank Rate, do you not think that exchange fluctuations give a greater uncertainty than changes in the Bank Rate? When bankers and other people have to move large funds from one centre to another for a short period they may lose quite a percentage of their capital if prices abroad change?—They may lose, on the other hand they may gain.

2978. I know, but it is an uncertainty. (*Mr. Keynes*): If you take recent experience, a greater change of index prices than two or three per cent. until recent years was almost unknown. It is only if the rest of the world behaves in a very uncertain manner that these fluctuations will occur. (*Mr. Brand*): We have been told that the fluctuation in gold movements is very great. If that continues there would be this serious disadvantage on the other side. (*Mr. Keynes*): On the other hand, if you had anything like what we were accustomed to in the Nineteenth Century the amount of change that Mr. Bellerby would have in the exchanges would be very slight. The much greater issue, I think, is the initial change which the scheme involves, which, of course, is a very large fluctuation from your point of view. (*Mr. Brand*): It is reversing the decision taken in 1924. (*Mr. Keynes*): Whether one is prepared to face all these obvious difficulties depends very much on what one hopes to get out of the remedies on the lines of Mr. Bellerby's short-period policy. (*Mr. McKenna*): I suppose if you could rely on a greater supply of gold you would be satisfied with your short-period policy?—I cannot see any short-period policy which would help the export trade.

2979. *Mr. McKenna*: Except a sufficient supply of gold to reduce real wages?—But would it be possible to get a sufficient supply of gold with a rising price level in this country?

2980. The possibility or otherwise we may discuss later; I am only dealing at the moment with the effect of an increased supply of gold and whether that would not achieve your object?—Temporarily.

2981. If you could get a continuous additional supply of gold it would achieve your object?—Yes. The only difficulty seems to be to get it, and secondly, once you had got it you may set up factors which would tend to make you lose it again. If on the basis of your larger gold supply you expand credit and enable prices in this country to rise, then you put yourself in the position in which you stand to lose gold, and you may lose again the whole imported supply.

2982. I am speaking of a world supply of gold. I am assuming a cessation of the drop in the world price level.—Yes.

2983. Then your short-term remedies would meet your case?—Yes. I think they would if one could get an internationally stable price level at a higher position than the present.

2984. It is not merely a question of the use of the gold of the Bank of England, but the use of the gold of all the Central Banks. That is to say, every unit of gold can be made to do more by agreement?—(*Witness*): Yes, I suggest that depends substantially on credit policy, rather than on the gold situation. (*Mr. McKenna*): Therefore, possibly by a change of policy on the part of our Central Bank and those of other nations, we might achieve our object, and get the equivalent of an additional supply of gold.

2985. *Chairman*: There are two aspects of this question. If we look at it internationally one object would be to get all the different nations to play the game by the gold standard and to agree to make it work efficiently and economically. But would not your project involve this country adopting a policy which was out of conformity with the policy of other countries, and to that extent prevent that very co-operation which you think desirable?—No, unless the other countries prove obdurate.

2986. Would you not have to persuade other countries as well as this to adopt the system which you advocate?—No, it is a system which could be adopted in this country without other countries adopting it. But, in addition, it gives the power to this country to aid other countries in any scheme whatever of stabilisation.

2987. It is, in effect, going off the gold standard while other countries are adhering to the gold standard. How do you propose to attain that measure of co-operation?—We should be able to do with a considerably less supply of gold under these proposals and would therefore be able to place at the disposal of the rest of the world an additional supply to enable them to check any fall in the price level; and the second way in which we could assist is, if at any future time there happened to be a shortage of gold, the fact that we can change our price of gold and make our gold go further, so to speak, would enable us to reduce the tendency to shortage.

2988. You do agree that the adoption of this policy would have the effect of making London cease to be the hub of the financial universe?—It is very difficult to assess how far London would lose in the widest sense. I think that it would become much less an international centre for liquid or surplus funds, but that might be an advantage in some ways, in that it would make the City much less sensitive to external movements. At the present time the existence on the market of large quantities of liquid funds does tend to make this country very much more sensitive to outside changes than previously, particularly when we have very narrow gold points.

2989. If less money were coming to London, would not that have the effect of restricting the volume of credit in this country?—Except that we should expand credit in other ways. There would be no limit to what we could do if we wished under the proposal that I suggest.

2990. Let us look at one or two of the actual things you propose. First of all, your short-period proposals. The first suggestion you have is to remove the limitation on the fiduciary note issue. So far as that is concerned. there is on the Statute Book at this moment a provision for the alteration of the fiduciary issue, is there not?—Yes.

2991. In your view, has there been any occasion since that Statute was passed when advantage should have been taken of that power?—I think it would be advisable to take advantage of it to-morrow, and simply ignore it.

2992. *Professor Gregory*: In your Memorandum, you indicate a desire for reshaping the Bank Return, and you pick out certain items which would show the volume of liabilities which ought to be covered by gold. How would you like to see the Bank Return framed under your scheme?—I think I should need a little notice of that.

2993. You would like to see a return in which the notes and other items not involving quick liability were segregated under a separate heading?—Yes.

2994. And the quick liabilities of the Bank would be distinguished and shown against the gold reserves?—Yes.

2995. *Mr. Brand*: You could apply, I suppose, your system for making us less sensitive without going back to 1924 prices, but you would not meet the unemployment difficulty?—No; virtually all these short-period proposals would make us less sensitive. That is their purpose. But they would not much affect unemployment, I think.

2996. You could apply your proposal for altering the price of gold without going back to 1924 prices?—Yes.

2997. *Chairman*: I should like to put to you some questions on the proposal to abolish the limit on the fiduciary issue. Is there a limit in the case of all other countries?—A number of European countries.

2998. What is the object of the limit?—To give the impression of security.

2999. Does it succeed in doing that?—I doubt very much how far other persons outside the Bank of England itself observe the reserve proportion which shows the ratio of surplus gold over that needed for backing notes.

3000. *Mr. Keynes*: Is it not really a relic of the days when gold was in circulation, when it had a meaning?—Yes.

3001. *Mr. McKenna*: Is it not a fact that gold is held against the only liability of the Bank of England which in no conceivable circumstances—or save in very exceptional circumstances—can they ever be called upon to meet?—That is true, I think.

3002. They are not obliged to hold a reserve against the other liabilities, which they could be called upon to meet to a very large amount?—That is the fact in this country.

3003. *Mr. Brand*: I suppose that one object of limiting the fiduciary note issue would be to prevent a real inflation of the gold standard from occurring without an alteration in the law?—No; it would be necessary to go completely off the gold standard in order to have an arbitrary inflation, and the limitation of the fiduciary note issue is not a necessary element in the gold standard.

3004. *Chairman*: You say it is designed to give an impression of security?—I ought not to say that it is designed for that purpose; I say that it might have that effect. I think it is just simply a relic of previous days when gold coins were in circulation and when notes could be submitted to the bank for exchange into gold coin. In those days the note issue in the hands of the public did constitute a real danger—the basis, so to speak, of a run on the bank. Now, when it is impossible for ordinary people to submit notes to the bank for exchange into gold for coinage and circulation there is no risk whatever in the note issue.

3005. Then you would permit an unlimited note issue?—I should certainly fix no limit.

3006. *Mr. Lubbock*: There would be no use in issuing more notes if the result of that process was that the notes became converted into gold and the gold was taken away?—The notes would in any case come back to the bank, because nobody would want them in business.

3007. Then there would be no advantage in issuing any more?—No; but there is no advantage in limiting them.

3008. *Mr. Keynes*: Is not your point that the Bank of England already has power to determine the amount of credit?—Yes. And the amount of credit determines the amount of notes needed by business.

3009. *Mr. Bevin*: If you had a greater issue of notes what effect would that have on unemployment?—None whatever. If there were no expansion of credit at the same time, the notes would come back to the bank.

3010. *Mr. Lubbock*: What effect would it have on the action of the bank at this moment if there were no fixed fiduciary issue?—The bank could then safely lose £40,000,000, £50,000,000 or £60,000,000 of gold.

3011. *Mr. Keynes*: You would say the effect of the fiduciary issue is to give an apparent security, and a reality of unsecurity?—Yes.

3012. *Mr. McKenna*: Would you not say that the quantity of notes in circulation in the country is determined by two factors only, the price level and the number of people in employment at the current wages?—I think I should agree to that; and the price level and employment are in turn largely governed by the supply of credit.

3013. May not one state the position in this way: The amount of notes in circulation depends only upon the price level and the number of people employed at current wages. If you increase the number of people employed, and therefore the number of users of notes, more notes would be called for. Diminish any of those factors and fewer notes will be required. Is it not further a fact that the price level is influenced by the amount of credit which the Bank of England creates?—Yes, indeed; I think that it the essential factor.

3014. We may take that almost as an axiom?—Yes.

3015. And therefore the only way in which the demand for notes could be increased would be by the action of the Bank of England in creating credit?—Yes.

3016. *Chairman*: As regards this interesting historical relic of the maximum fiduciary issue, is the Bank hampered at the present moment in what otherwise it might legitimately undertake? Has the fiduciary limit been in any way one of the causes you have discerned of our present troubles, or has it nothing to do with them?—I feel that the Bank would have been less troubled, probably, during the period of inflation in Wall Street last year if it had not felt the necessity for observing the movement of the proportion, and for maintaining that limitation of the note issue. In that period it could only afford to lose something like £30,000,000 of gold, because when it had lost that amount then its total reserve of notes, or surplus gold, was only about £30,000,000. Yet it still had, I think, £100,000,000 of gold behind that £30,000,000 in the Bank.

3017. *Mr. Lubbock*: You said just now that if there were no limitation on the fiduciary issue the Bank might contemplate without uneasiness the loss of £40,000,000 or £50,000,000 or £60,000,000 of gold?—At least up to £60,000,000.

3018. It could not do that very often?—Not once the gold had gone.

3019. Once the gold had gone it could not contemplate the loss of another £60,000,000 with equanimity?—No, quite.

3020. As long as we are on the gold standard there must be some substantial reserve to meet the drain on gold. The Bank of England I think lost £45,000,000 in one year?—There must be a reserve so long as you are on the gold standard.

3021. *Mr. Keynes*: But you point out that this remedy is one you cannot repeat?—Quite. It is a short-period remedy; it is a means of rendering us less sensitive to temporary disturbances outside.

3022. *Chairman*: The abolition of the limit of the fiduciary issue is to be a permanent change?—Yes. What I meant was that it can only assist in the case of short-period problems.

3023. *Mr. Keynes*: It would permanently enable the Bank of England to make lesser demands on the gold supplies of the world?—Yes.

3024. *Mr. McKenna*: Is there a further point in support of your argument that the abandonment of the fiduciary limit should be done once for all at a time when there is no immediate need for doing it. If a need arose for exceeding the limit a question would then arise as to agreement between the Treasury and the Bank of England in dealing with the profits of the Issue Department; would not you agree that it is desirable to settle that question once for all without having to open it on every occasion when there is a need for either increasing or diminishing the fiduciary issue?—Yes, from a financial point of view, that would be a gain.

3025. Would you not agree it would be desirable to settle that question once for all?—Yes.

3026. *Professor Gregory*: There are two points involved. One is that it is much better to take away the fiduciary limit, if it is desirable to do so, at a time when there is no disturbance in the public mind than at a time when there is seasonal or abnormal pressure?—Yes, because at an abnormal time it would increase the sense of abnormality.

3027. The other point is that the separation of the departments could lead to a situation in which the Banking Department might be bankrupt whilst the Issue Department might have a gold reserve of 90 per cent.?—Yes.

3028. *Chairman*: Then you do not think that the existing provision under which the fiduciary issue is adjustable is a remedy?—No, because it cannot be used except in emergency, and if there *were* an emergency that would be the very time when the Bank would least want to use it, because it would increase the sense of insecurity.

3029. From the practical point of view would this remedy assist us at present?—Only in so far as short period measures may; that is to say, measures dealing with short period problems.

3030. Would it assist in increasing the volume of credit?—Temporarily.

3031. By what means; how would it work out practically?—It would mean that the Bank of England could provide a wider basis for credit.

3032. *Mr. Keynes*: It could take greater risks for a time?—Yes.

3033. It would not matter if it lost a large quantity of gold in the process?—That would be the advantage.

3034. *Mr. McKenna*: It would not be so sensitive to movements of gold?—Exactly.

3035. *Mr. Lubbock*: Do not movements of gold sometimes indicate a position which needs correction? Quite apart from the mere fact that gold is leaving this country, do they not indicate a position of want of equilibrium that it is much better to check in its early stage than at a later stage?—Yes. The only difference, when the note issue is not limited, is that, when warned by these signs, the Bank of England would then have a choice of going a little further than it does at present in losing gold, or a substantial distance if it needed.

3036. *Chairman*: One of the motives for conserving gold is because gold is the backing of the notes, is it not?—At present gold is maintained for backing notes and for no other purpose.

3037. *Mr. Lubbock*: Would you not rather say that gold was maintained to settle international differences?—It ought to be.

3038. That is the only purpose for which it is used for practical banking purposes?—Yes. From that it follows that there is not much reason for determining the amount of gold you hold in your reserve by the amount of the note issue.

3039. *Professor Gregory*: If the Issue and Banking Departments were united the possibility of ignoring the note issue, as you put it in your Memorandum, would be increased?—Yes.

3040. *Chairman*: And the object of that would be to enable the Bank to carry on a little longer without altering Bank Rate?—Yes.

3041. *Mr. Lubbock*: In the hope that the position would adjust itself?—Yes. It would have to be sure that the situation would only be one of an essentially temporary character.

3042. *Chairman*: How is the Bank to judge that? (*Mr. McKenna*): Does not the mere fact of exporting gold to some extent alleviate the difficulty?—Oh, it does.

3043. *Mr. McKenna*: If there were greater freedom for sending gold, the act of sending it would itself supply the remedy, and under normal conditions of trading you might get a reversal of the process and gold would come back again. (*Mr. Lubbock*): Yes, if the gold were allowed to play its part in the country which it reaches. (*Professor Gregory*): A situation which might be met by the temporary expedient of letting gold go was the situation in America in July to September last year; gold would flow back after the situation had been broken. (*Mr. McKenna*): The United States having a great surplus of gold is under no difficulties either in taking or sending away gold, and your suggestion would be, not to put us in the same position as the United States, but to put us in a position more akin to theirs by giving us greater freedom in sending or taking gold?—Exactly.

3044. *Mr. Brand*: While the United States has not a fixed fiduciary issue, it is just as much bound in a different way. (*Chairman*): Mr. Bellerby would be just as much against the regulation of the fiduciary issue as limiting it?—Yes; I see no use in regulation.

3045. *Chairman*: You would leave the Bank an entirely free hand?—Yes.

3046. *Mr. Brand*: You said that one of the means of delaying the loss of gold is for the Bank of

England to hold foreign securities or, I suppose, money deposits?—Yes.

3047. I suppose if they could have built up that fund they could have built up a gold reserve equivalent. I suppose it is no easier to do the one than the other?—No, except that gold is a dead asset.

3048. It is merely an alternative?—Yes.

3049. *Chairman*: I would like to ask a question or two about the proposal to put an embargo on investment abroad. Do you think there is over-investment abroad?—Yes, I think if there were some diminution in investment abroad it would ease the situation in this country very considerably.

3050. Would the objective of that be to divert the money now invested abroad to home investment?—Yes, partly that and partly to strengthen the exchange rate so that we tended to lose less gold.

3051. Have means of restricting investment abroad been attempted?—I think there have been sporadic attempts, but no concerted attempt on the part of any agency in this country.

3052. Have they been tried elsewhere? (Mr. *Keynes*): European countries have tried it during periods of crisis. (*Chairman*): Did not France try it?—Yes, through taxation of investment abroad.

3053. *Chairman*: How far can you make it effective? Will not people invest where they want to invest? You can discourage, but you cannot control?—I should say it is extremely difficult. I speak with diffidence here because I do not feel I know sufficiently the technique of control.

3054. *Sir Walter Raine*: How would you pay for imports if you were to stop further investment abroad?—You extend home industry and, therefore, involve yourslves in fewer imports; that is to say, if you produce your goods at home.

3055. Yes, but you need a lot of raw material including about 40 to 46 weeks' supply of food, and if we had more people working, we would want more imports in the way of food. How would you pay for them if you stop foreign investment; would it not make a big adverse balance?—It is a question of balancing quantities one against the other. I should have thought if you expand home investment, in proportion as you do that you diminish your demand for goods from abroad.

3056. *Mr. Keynes*: Is not the embargo not so much a means of diminishing foreign investment as a check on the pressure towards foreign investment—an alternative check to the Bank Rate?—Yes.

3057. We would still be investing abroad all that our balance of trade permitted us to invest. You are only suggesting this as an additional means for checking us from lending more than we can afford?—Yes, as a temporary measure.

3058. *Sir Walter Raine*: From the way in which it was suggested, I understood it meant no investment abroad at all? (*Lord Bradbury*): It would mean a rationing rather than an embargo?—My suggestion was badly worded; I meant simply a *temporary* embargo to hold the exchange rate for a period.

3059. *Chairman*: You say, "The step required of the Government in this connection is to borrow from the public, for purposes of State enterprise, at a relatively high rate of interest. To be effective, the rate offered should be high enough to attract savings ordinarily destined for investment abroad." How is the interest on such loans to be financed in your opinion?—This proposal is virtually the Liberal Party scheme; and the expectation there is, I think, that the financing of the loan subsequently would be effected through certain improvements in revenue which one would hope to get from the greater industrial activity resulting from the scheme itself. There would be a further gain through a diminution in the demand on the unemployment funds. In essence the scheme as proposed by the Liberal Party is expected to finance itself in the end by creating the activity on which the greater interest payments may be founded.

3060. Your next short-term remedy is the widening of the gold points. I am not sufficiently conversant with these matters. Has that been suggested before?—Yes. Nothing which I have put here, incidentally, is a new suggestion. The reason for making that proposal arises mainly out of the existence at the present time of very considerable liquid funds on international financial markets which tend to make the individual countries very sensitive to outside conditions, particularly when the gold points are narrow and the exchange rate is constantly being thrown beyond the gold points. It seems that this large fund of liquid capital could be turned to advantage by any country, to render it less sensitive, if it were to widen the gold points, that is to say, to widen the prices at which its Central Bank sells and buys gold. And if in addition to widening the gold points it were to take measures for pegging the exchange when the exchange touched the gold export point, it would mean that every time the exchange rate fell to the gold export point there would be a tendency for this fluid capital to be poured into the purchase of the currency so as to check its further fall, the aim of the purchaser being to secure greater profit when the currency recovered.

3061. Would it not tend to speculation?—It would somewhat increase expert speculation in exchange, but that would mean the movement of these liquid international funds instead of the movement of gold; and that is what one desires to arrive at.

3062. *Mr. Keynes*: It gives you in effect an additional way of attracting foreign funds without penalising home industries. At the present time all we can do is to raise the Bank Rate to attract foreign funds; that means we penalise home industries. If we adopted this method as well, your point is that we should offer the prospect of an exchange profit in addition to the rate of interest?—Yes.

3063. *Chairman*: With regard to your long-period remedies, your main one is giving the Bank discretionary power to fix the prices at which it buys and sells gold?—Yes.

3064. There should be no statutory limit at all?—No, there would be no statutory figure.

3065. And the method then for stopping the outflow of gold would be not to alter the Bank Rate, but to change the price of gold?—A persistent outflow of gold would in the end be stopped by changing the price of gold, but only after the other short-period measures had been used to their limit.

3066. If that did not overcome the difficulty, then you would bring up this other remedy?—You still have the Bank Rate if you wish it for preference.

3067. You increase the armoury of powers?—Yes.

3068. The result of your proposals would be to clothe the Bank of England with enormously increased and almost despotic powers?—Not exactly despotic, beause we do impose on it the necessity of maintaining the price level somewhere near a given position in order to maintain the stability of the value of money.

3069. *Professor Gregory*: There is one point I want to ask you which arises, not out of the principles of your scheme, but out of the actual suggestions you make. You go back to wholesale prices for 1924. Why do you take that particular year?—Because it happens to be a year which gives a level of wholesale prices about the present level of retail prices. The cost of living is now about 166; wholesale prices are below 130.

3070. At that price level you still had a very considerable volume of unemployment?—Yes, but there had been a considerable diminution. And costs have fallen since then.

3071. *Chairman*: How far is this designed to be a corrective of natural causes as well as of artificial causes? Supposing you had a pretty good harvest with a consequent effect on food prices, do you think the Bank would have to embark on a policy of expansion to keep up prices?—An expansion of credit would be required to enable more purchasing to take place. If you had a fall in the price of wheat owing to a large harvest, then the desirable thing, which cannot take place at the present time, would be for the Bank to be in a position to expand credit so that the harvest might be taken up and so that you got no check to any of the other industries at the same time.

3072. *Mr. Lubbock*: Are you trying to keep the price of wheat level, whether the harvest is good or not?—No; merely the average level of prices, which is the best index we have of the general flow of trade.

3073. *Chairman*: I see. It would not be a corrective of prices?—Not of individual prices. There is no desire to do that.

3074. We are very much indebted to you for having given us so fully your written evidence, and in it, I may take it, we really have the views that you wish to place before the Committee?—Yes, it is fairly comprehensive of my opinion.

3075. The purpose of inviting your attendance this afternoon was to afford myself and my colleagues, not only the pleasure of meeting you, but also to ask you to answer any points arising on your written evidence. You have been very generous in answering; I do not know whether any of my colleagues would like to put any further question. (*Mr. McKenna*): I have a question, not arising out of the general discussion, but on a point which once or twice in your Paper you assume to be almost axiomatic—a view in which I may say I personally concur, but I do not think it was generally accepted as true. Your opinion, as I gather from your Paper, is that a contraction of credit is normally followed by a contraction of trade and employment?—Yes; that underlies the Paper.

3076. *Mr. McKenna*: Is that derived from theory or observation?—From both.

3077. *Chairman*: Then I think all that remains is to thank you very much, Mr. Bellerby. If any subsequent question arises from our consideration of your Memorandum we shall perhaps communicate with you again.—I thank your Lordship.

(*The Witness withdrew.*)

(*Adjourned till Thursday next, 20th March, 1930, at 4.30 p.m.*)

The following note was subsequently submitted by Mr. Bellerby:—

In the evidence which I have submitted to the Committee, I seem not to have made sufficiently clear the belief that, by placing the Bank of England in a position to modify its buying and selling prices for gold, this country would acquire greater power to co-operate with other countries in stabilising the world level of prices.

In order to give grounds for the belief a proposal will be outlined here, showing a way in which the initiative might be taken in the development of a scheme of stabilisation internationally. It will be assumed that this country has already decided to make possible, subject to safeguards, changes in the Bank of England's price for gold.

Uniform and Simultaneous International Changes in the Bank Price for Gold.

The essence of the proposal is that through the medium of the Financial Committee of the League of Nations there should be adopted a Convention under which each ratifying State would undertake to empower its Central Bank or other competent authority *to effect changes in its Bank price for gold following upon and in accordance with the decisions of a duly constituted international monetary conference.*

Once such a Convention had been adopted and generally passed into law, the procedure, in the event of a threatened scarcity in the world supply of gold, would be as follows. An international monetary conference would be convened (preferably such a conference would meet at regular, pre-arranged intervals) and would decide upon some increase in the price of gold, an increase to be effected uniformly and simultaneously in the different countries represented at the Conference. When, subsequently, the price for gold was raised, this action would avert the danger of scarcity of gold in two ways: it would stimulate the production of gold; and it would increase the money value of the gold reserves held by Central Banks. On the basis of the same physical amount of gold, the Banks would be able to erect a greater superstructure of currency and credit.

This proposal for international co-operation in neutralising disturbances in the world supply of gold has the advantages of: (*a*) requiring only one act of legislation for all time; (*b*) providing a means of protection against both inflation and deflation; (*c*) avoiding fluctuations in exchange rates between the ratifying States; (*d*) being capable of application by any group of States irrespective of the possible non-adherence of others.

J. R. B.

SEVENTEENTH DAY.

Thursday, 20th March, 1930.

PRESENT:

The Rt. Hon. LORD MACMILLAN, *Chairman.*

Sir THOMAS ALLEN.
Mr. ERNEST BEVIN.
The Rt. Hon. LORD BRADBURY, G.C.B.
The Hon. R. H. BRAND, C.M.G.
Professor T. E. GREGORY, D.Sc.
Mr. J. M. KEYNES, C.B.
Mr. LENNOX B. LEE.
Mr. CECIL LUBBOCK.
The Rt. Hon. REGINALD McKENNA.
Mr. J. T. WALTON NEWBOLD.
Sir WALTER RAINE.
Mr. J. FRATER TAYLOR.
Mr. A. A. G. TULLOCH.

Sir FREDERICK LEITH-ROSS, K.C.M.G., C.B.
Mr. G. ISMAY, *Secretary.*

Sir ROLAND NUGENT and Mr. R. G. GLENDAY, representing the Federation of British Industries, called and examined.

STATEMENT OF EVIDENCE SUBMITTED BY THE FEDERATION OF BRITISH INDUSTRIES.

1. The problems arising out of the relations of Industry and Finance fall into two groups:—

(A) International Gold Standard.

(B) National Industrial Finance.

(A) INTERNATIONAL GOLD STANDARD.

2. The principal general questions arising under this head are best considered in relation to the sequence of events which preceded and followed the return of Great Britain to a gold standard in 1925

3. Prior to that return the Federation had, on a number of occasions, taken steps to urge upon both the Bank of England and the Government the vital importance to industry of all decisions taken in regard to monetary policy in general and the return to the gold standard in particular. These views were finally summarised in the written evidence tendered on behalf of the Federation in July, 1924, to the Committee on Currency and Bank of England Note Issues (originally presided over by Sir Austen Chamberlain, but subsequently by Lord Bradbury).

4. In that evidence the Federation stated that, while it was in agreement with the view that it was in the industrial interest that Great Britain should return to the international gold standard, it was gravely apprehensive as to the results which were likely to follow any attempt to force back the £ sterling to parity with the dollar under conditions then existing in the international monetary field.

5. As will be seen from the written evidence itself (a copy of which is included in Appendix I) it specially warned the Committee of the grave injuries which were likely to be done to British industrial recovery and overseas commercial expansion by premature action along the lines contemplated. In particular it laid stress on the following consequences which it anticipated would follow a raising of the value of the £ sterling to parity with the dollar which a return to the gold standard at that time entailed.

(*a*) Serious temporary dislocation of trade and a probable increase in unemployment due to the effect of the *certainty* of a period of falling prices upon producers, traders and buyers.

(*b*) A severe fall in British prices involving serious loss to all holders of stocks of commodities and to all who trade on borrowed money.

(*c*) A serious industrial dislocation due to the necessity of reducing money wages by 10 per cent., which would in present circumstances seriously increase the difficulty of maintaining industrial peace.

(*d*) A strong probability that a severe check would be administered to export trade since the improvement in the exchange value of sterling would be likely to precede and to move faster than the adjustment of internal prices.

(*e*) An increase in the real burden of the National Debt as a result of revenue falling with prices, while interest charges would remain unaltered.

6. In justification of the Federation's warning it is sufficient to draw attention to the following comparison of conditions before the rise in our exchange in the latter half of 1924 in anticipation of our return to the gold standard, and those subsequent to the actual return in 1925.

(1) *Increased Money Stringency.*—In July, 1924, the Bank Rate of 4 per cent. was made effective. It had remained unchanged at that level for nearly a year, but the market rate of discount had been allowed to drop to near 3 per cent. In other words, the 4 per cent. Bank Rate had not been operative. In July, 1924, however, pressure began to be applied till the market rate of discount was forced up to just below 4 per cent. These measures, reinforced by anticipatory speculation, brought the U.S. exchange rate to 4.78 dollars to the £ by January, 1925, after having been as low as 4.20 in 1924. In March, 1925, a further step in the direction of credit restriction was put in force, viz., an increase of the Bank Rate to 5 per cent. Excepting for a temporary fall for exceptional reasons to 4 per cent. in the autumn of 1925, the Bank Rate remained at 5 per cent. until the beginning of 1927.

(2) *Additional Unemployment.*—In June, 1924, the number of unemployed was approximately 1,000,000, or 220,000 less than the year before. From that date it rose steadily till October, 1924, after which it remained, with slight seasonal fluctuations, at about 1,250,000 until the end of March, 1925; then it fell for a time below 1,200,000, but in June, 1925, it resumed its upward trend, reaching by the end of September 1,336,000. The coal subsidy, which had come into operation on August 1st, then began to be effective. From this time onwards, until the coal stoppage in March, 1926, the heavy fall in unemployment in the coal industry and its dependent trades, which followed the granting of the subsidy, completely overshadowed any tendencies in the figures for other trades to move.

(3) *Dislocation of Prices.*—The Board of Trade industrial wholesale price index number, which stood at 165.0 both in the third quarter of 1924 and the first quarter of 1925, fell 13 per cent. to 144.0 by the end of the first quarter of 1926 (the eve of the coal stoppage). The Cost of Living, however, as measured by the Ministry of Labour, only fell two points, being 173 in the third quarter of 1924 and 171 in the first quarter of 1926. The movement of wholesale prices in this country was the opposite of that in U.S.A.; for during the last quarter of 1924, the American wholesale price index number rose from 131 to 145, and to an average of 148 in 1925, falling to 146 in the first quarter of 1926. Wholesale prices in Germany also moved upwards, whilst those in France showed an indefinite trend as the "flight from the franc" was then proceeding.

(4) *Depression of Industry.*—The effect on the general conditions of industry can be illustrated by reference to developments in the coal and iron and steel trades.

The production of coal in the winter of 1924-5 had been below that of the preceding winter, and in the second and third quarters of 1925 the tonnage raised was 11.7 per cent. less than in the corresponding periods of 1924. The output of pig iron fell continuously, quarter by quarter, throughout 1924 to the third quarter of 1925; so too did the output of steel, except for moderate increases in the winter quarter of 1924-25. These reductions can be directly related to the fall in prices already explained. A complete stoppage in the coal industry was threatened, because the miners refused to consent to a reduction in wages, and was only averted by the Government agreeing to make good to the owners the losses consequent on the payment of the existing rates of wages for a period of nine months, while a Royal Commission enquired into the condition of the industry. The promise of this subsidy was followed by a moderate improvement in trade in the third quarter of the year, partly due to the stimulus given to the autumn seasonal revival in trade by the relief at the removal of the fear of an immediate stoppage, and partly also to the temporary decrease of the Bank Rate in two stages to 4 per cent.

(5) *Check to Export Trade.*—The lack of buoyancy of our export trade both absolutely and relatively to that of other countries has been an outstanding feature of recent industrial history. As can be seen in the table of British exports in volume in Appendix II, the effect of credit restriction during the period showed itself more immediately in the exports of those goods near the raw material stage than in those in a more finished state of manufacture. The value figures are also given in Appendix II.

But the adverse effect of our return to a gold standard on our export trade cannot be appreciated by considering the actual figures for our export trade alone. Account must also be taken of the embargo on foreign investment which was in operation for a substantial proportion of the period, and which cannot have failed seriously to restrict our export activities. It is also relevant to point out in this connection that the retained imports of foreign manufactured goods expanded during the period, being 12½ per cent. greater in volume in 1925 than in 1924. The fact that the expansion was most marked during the latter part of 1924 and the first part of 1925, a period of enforced credit restriction, supports the view that British prices were tending to be raised in relation to foreign prices. It should be remembered, however, that at this time British manufacturers were in any case finding it extremely difficult to compete with their continental competitors, who were enjoying the benefits of an export bounty resulting from extended periods of currency depreciation.

(6) *Labour Unsettlement.*—The state of unsettlement in the labour field culminating in the general strike of 1926 is so well known that it scarcely needs more than passing mention. While it is difficult to relate this unsettlement by means of direct statistical evidence to the monetary events which occurred in connection with our return to gold, it may be mentioned that this view was held by reputable contemporary observers. Sir Josiah Stamp, for example, stated in an addendum to the report of the Court of Enquiry into the coal mining dispute in 1925, that the resumption of the gold standard had been an important disturbing factor in adding to the difficulties of the coal industry.

Other evidence is to be found in the influence of the fall in prices on the level of real wage rates. While the statistical material available is too rough to enable a precise calculation to be made, some idea of the magnitude of the increase in real wages for which it was responsible can be obtained by combining the Ministry of Labour cost of living index number with Professor Bowley's wage index. This suggests that the net effect of the return to the gold standard was to increase real wage rates by 6 per cent. up to June, 1926.

It should be added that whilst there was this upward trend in real wage rates in Great Britain, wages on the Continent converted into international values were steadily falling as a consequence of currency depreciation.

(7) *Increase in real burden of National Debt.*—The effect of the fall in British prices on the burden of the National Debt is illustrated in the following table. For the purpose of comparison, the nominal amount (other than floating, foreign and pre-war) is expressed in Col. 7 in 1913 prices, according to the Statist index number of wholesale prices:—

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
31st March	Total Debt	Floating Debt	Foreign Debt	Pre-War Debt (funded and terminable Annuities).	Debt other than Floating, Foreign, Pre-War.	Statist Wholesale Price Index No. 1913=100.	Debt other than Floating, etc. (see col. 5) Expressed in 1913 values.
	£ mill.	£ mill.	£ mill.	£ mill.	£ mill.		£ mill.
1920	7,832	1,264	1,279	334	4,955	308·0	1,609
1921	7,585	1,243	1,161	333	4,848	208·5	2,325
1922	7,676	1,021	1,089	331	5,236	156·8	3,339
1923	7,772	810	1,155	328	5,479	156·1	3,510
1924	7,681	774	1,126	328	5,453	161·2	3,383
1925	7,646	742	1,121	327	5,456	164·8	3,311
1926	7,616	704	1,111	326	5,475	148·4	3,689
1927	7,623	716	1,101	326	5,480	145·4	3,770
1928	7,611	689	1,095	326	5,501	145·4	3,783
1929	7,596	737	1,085	326	5,448	141·8	3,842

(In regard to the total nominal debt, it should be noted that the floating and foreign debt has not been converted to 1913 prices, since the burden of these is not affected by fluctuations of British price level, whilst the pre-war debt has also been omitted, being comparatively negligible in amount, and, of course, affected by variations in the price level over a very much longer period than the rest of the debt.)

It will be seen that the real value of internal debt (other than floating and pre-war) doubled in the period 1920 to 1925, since when it has experienced a further increase of something like £500,000,000 (as measured in 1913 values), *i.e.*, a growth of approximately 20 per cent.

(8) *Level of Taxation raised.*—The effect of a falling price level on the burden of taxation is not confined to the total weight, but extends to the yield of taxation itself. Put briefly, falling prices necessitate the imposition of a higher standard rate of income tax than would be necessary if the level of prices were stationary or rising. This is a result of the reaction of falling prices on business profit margins. The usual commercial custom in calculating profit margins for taxation purposes is to bring stock in hand at the end of the trading period into the accounts either at cost or at market price, whichever is the lower. In a period of falling prices, stock is brought in at the market value, which is lower than the bought price, the profit or loss thereby realised on the year's transactions is diminished or increased by the difference between the market value and bought price of the stock. Further, unless the rate of turnover during the year has increased (*e.g.*, by mass production, which relies upon an expanding demand to maintain or increase profits whilst maintaining or cutting selling prices), falling prices will curtail profits, with the consequent increase in the burden of taxation on each unit of output.

7. Although it may perhaps be urged that the circumstances associated with our return to the gold standard in 1925 were not alone responsible for the unfortunate series of events set out above, the Federation believes that it is impossible to deny that they were a major cause. But the Federation in its evidence did not confine itself to criticising the circumstances and conditions under which the return to the gold standard was being made. In addition it laid great stress upon what it conceived to be a vital defect in the method of return itself. It pointed out that the more important benefits which that standard had afforded to British industrial development in the past had depended on the fact that gold was employed as the principal medium of *international* interchange among the trading nations of the world. The pre-war gold standard not only exercised a stabilising influence on world trade as a whole, but played an important part in keeping the activities of the separate countries of the world in step. In its evidence the Federation expressly stated the view that these functions of the gold standard which had been destroyed by the war, could not be restored by "*one country acting alone,*" but depended on "a general agreement on the part of the principal countries of the world to re-establish a common monetary standard."

8. Its justification in uttering that warning is to be found both in the conflict of national monetary policies and in the international "scramble for gold" which have played such a notorious part in disturbing international trade during the past five years.

9. The Federation believes it cannot be denied that, despite the readoption of a gold, or gold exchange, standard by most of the important countries, gold has completely failed to resume its position as the fundamental link in the system of international trade which it occupied before the war, whereby prices and general trading conditions in the principal countries were adjusted one to another, and their surplus resources co-ordinated in the common task of developing new areas of the globe.

10. In setting out the above body of evidence in confirmation of the views expressed before Lord Bradbury's Committee, the Federation is fully aware that it does not cover the whole ground. It feels, however, that it is sufficiently impressive to warrant it suggesting that Lord Macmillan's Committee should call for parallel evidence from the financial side.

11. In particular, it would strongly urge the desirability of passing under review the Banking records of recent years, as until these have been examined and analysed and an authoritative pronouncement made on the results, the apportionment of responsibility as between Finance and Industry for the state of relative stagnation of British industry during the past five years must remain a matter of acute controversy.

12. The present Government Committee would appear to be specially qualified both by authority and discretion to obtain the requisite information and undertake the necessary analysis.

13. While the Federation fully appreciates that information relative to the operation of the Bank of England and other financial institutions must, for obvious reasons, remain confidential, it does not regard this fact as affording justification for the high degree of secrecy which at present enshrouds the monetary policy of the country.

14. With the limited material available to them, the Federation's Economic Staff have ventured to prepare a general commentary on monetary events in Great Britain and the U.S.A. in relation to business conditions in those countries from 1924 to 1929. This is attached to our evidence as Appendix III. This commentary is primarily designed to draw attention to certain specific points which the Federation feels require elucidation. It makes no attempt to apportion responsibility as between Finance and Industry, being solely concerned with the reactions of recent monetary events on British industry and commerce. The conclusions which would appear to emerge from it are:—

(*a*) That British monetary policy during the past five years cannot be acquitted of an important share of responsibility for the lamentable conditions of trade and employment during that period, and for the lack of expansion of our overseas activities.

(*b*) That the sacrifices of industry to the needs of finance which that policy has entailed have not been adequately counter-balanced by benefits conferred on other sections of the community.

(*c*) That from the point of view of British industry and commerce the essential pre-requisite of a proper functioning of the gold standard is that it should be *international* both in its scope and operation.

(*d*) That there is no indication that the *post-war* gold standard is likely to resume its pre-war "automatic" regulatory functions in the international field in the near future, unless conscious and deliberate steps to this end are taken by the Central Banking Authorities of the world in concert.

(*e*) That having regard to the recent policy of certain gold-using countries, notably the U.S.A., there is no reason to anticipate that the necessary element of international co-operation will be forthcoming, unless much more vigorous action is taken, despite the lip-service paid to the underlying principle in such universally acclaimed resolutions as those adopted at the Genoa Conference in 1922.

If these deductions are even approximately correct they are highly significant from the point of view of the future of British trade and commerce.

15. The international gold standard (and the financial activities dependent upon it) which was in operation before the war, was something more than a passive instrument responding to and adjusting itself to the needs of industry and commerce. It was itself an active instigator and promoter of our trade development, especially overseas. It was an integral and essential part of the system of international commerce under which British trade reached its pre-eminence during the past century. It was no mere accident that London was the international clearing house both for money and goods; each of these functions was a resultant of, and dependent on, the other.

16. It follows therefore that a failure to re-establish the international gold standard on something approximating to pre-war lines is a factor of the utmost importance to British industrial prospects. It implies that, quite apart from any conditions of dislocation or maladjustment existing in particular industries or directions, we are no longer justified in looking for a resumption of our foreign trade activities on pre-war lines, *however successful our reorganisation and rationalisation on the industrial side may be.*

17. In this connection it may be observed that it is a mistake to suppose that because some of our exporting industries are, for reasons other than those of monetary policy, unable to resume their previous position, it necessarily follows that our export trade activities as a whole must stagnate. If external conditions (in particular, monetary conditions) were favourable to international trade, stagnation in these directions should by now, have been largely offset by buoyancy in others, as witness the recent experience of America.

18. But this is not all. If we are correct in holding that to a considerable extent industrial and commercial development cannot be divorced from financial policy, it follows that if the monetary authorities of the world continue to refuse to co-operate in re-establishing the pre-war single *international* system and decide either to pursue separate and independent *national* policies or to organise themselves into a number of more or less self-contained and exclusive groups, then the industries of the world—including our own—will in the course of time, whether they like it or not, be compelled to reorganise in order to adapt themselves to the new circumstances.

19. From this point of view the relations between the industrial experiences and financial policies of the principal industrial nations since the war are of interest.

20. So far as the U.S.A. is concerned the Federal Reserve Board as far back as 1923 openly proclaimed its deliberate abandonment of the automatic pre-war international gold standard with its regulation of the volume of credit by gold, and the substitution of a system of credit control designed primarily to promote the "national" industrial and commercial development of the United States.

21. France, the outstanding nation on the Continent of Europe enjoying full time employment, has also pursued a "national" financial policy, though it can scarcely be commended for imitation. It is relevant, however, to observe that it promises little hope of a complaisant return to anything approaching the pre-war international system operated with London as its centre.

22. Similar conclusions emerge from recent developments in Germany and Italy if allowance is made for certain exceptional and complicating circumstances peculiar to those countries.

23. If we look for an explanation of these departures from pre-war practice we find it partly in the psychological consequences of the intense nationalism of the war period, and partly in the fact that, in marked contrast to conditions in Great Britain, financial considerations in these countries have in the main been subordinated to the needs of industry and employment.

24. In all these countries it is, we believe, true to say that the primary objective has been productive employment, while in our case the aim has been primarily financial. This must not be taken to imply of necessity either a condemnation of our own policy or an approval of that of the other countries mentioned. It is intended merely as a statement of fact. Had our own policy been successful in re-establishing a *financial* system of the character aimed at, there is little doubt that its promoters would reasonably claim that the result had justified the means. As it is, their operations would appear to have encouraged a situation in many ways similar to that of the period 1873-1896 when trade and commerce strove in vain to achieve an active and prosperous condition in the face of an inelastic money supply.

25. To avoid misunderstanding it should be made clear that this does not in any way imply as a corollary the view that monetary policy alone has been responsible for the unhappy state of our trade both at home and abroad during the period, or that the breakdown of the pre-war international trading system can be ascribed solely to a failure to restore the pre-war international gold standard. Nor, it may be added, must we be interpreted as holding that the pre-war gold standard was without imperfections; for we are aware that it possessed weaknesses, notably its dependence on fortuitous supplies of gold, and its encouragement of "trade cycle" fluctuations. The special lesson to be learned from the *post-war* experiences of the above-mentioned countries is that financial policy cannot be dissociated from trade policy without serious consequences to industry and employment.

26. Great as have been the disasters which have overtaken certain of our basic industries, they have in comparison with the monetary factor been *limited* and *particular* in their range, in the sense that they have had relatively small influence outside the immediate sphere of operation of the industries concerned. The influence of a restriction in the money supply, on the other hand, is *general*; changes in the volume or rate of flow of money can exercise a potent influence both on the *direction* and *degree of expansion* of every branch of industry and commerce. The financial system under which money operates largely determines not only the channels along which trade will most readily flow, but also settles the broad lines of its development. The manner in which these vital financial functions were exercised in the past is well illustrated in the close connection between our foreign financial activities in the pre-war period and the prosperity of our export trade.

27. It is, we believe, broadly correct to say that the principal export markets for manufactured goods of the world were originally created by British financial policy with its arrangements for mobilising, *via* the London market, the quota of the world's savings available for overseas capital development and distributing that quota, with the requisite quantity of bank credit needed to make it effective, to the different parts of the globe where it could be employed most profitably.

28. If this description of the functions of finance is broadly correct, it follows that it is idle to seek for a complete solution of our difficulties by concentrating on the ills of particular industries. A permanent cure will not be possible unless international financial arrangements are set up to replace the system destroyed by the war. It is precisely this which the financial authorities of the world have failed to achieve. The progress towards international financial stability during the past five years has been practically nil.

29. We do not wish to imply that the restoration of the pre-war financial system would of itself restore industrial prosperity in this country, since other factors have also changed in the interval. But that restoration, or something equivalent to it, is one of the essential conditions for producing such prosperity.

Summary.

30. Summing up, before the war both trade and finance were truly international. British policy, both financial and fiscal, actively promoted such a condition and had done so for years. And, though it is true that most of the other important industrial countries pursued what were essentially "national" fiscal aims, their financial policies conformed to that of Great Britain and assisted in promoting its system of international trade.

31. Since the war both the financial and fiscal policies of every trading country of importance, with the exception of Great Britain, have been actually, if not avowedly, national in aim. The old roads along which goods and money flowed between countries have been seriously damaged where they have not been deliberately destroyed or obstructed, and the chief energies of both financial authorities and Governments, other than the British, have been devoted not to repairing the old international routes, but to constructing new national systems and diverting traffic to them.

32. We regard the fact that the pre-war international financial structure has not been re-established and the consequent pressure of economic necessity on the industries which grew up in, and were dependent on, a continuance of that structure as the underlying cause of the persistence of a condition of depression in British industry.

(B) NATIONAL INDUSTRIAL FINANCE.

The Federation desires further time to consider evidence to be given under this head.

APPENDIX I.

Written Evidence Presented to the Committee on the "Currency and Bank of England Note Issues."

Submitted 30*th July*, 1924.

1. The Federation understand that the Committee desire an expression of views as to whether the time has come for the transference of the Treasury note issue to the Bank of England, and, if so, under what terms and conditions.

2. This question was last treated by the Committee on Currency and Foreign Exchanges after the War, whose proposal was that the gold standard should first be restored and that the amalgamation of the note issues should take place only after a lapse of time sufficient to allow the amount of the fiduciary issue to be determined in the light of the experience gained by the working of the gold standard under post-war conditions. It therefore appears to the Federation to be impossible to deal with this question without some reference to the problem of the return to a gold standard, and they understand that the Committee desire an expression of their views on this point.

3. The Federation propose, therefore, to deal firstly with the question of the return to the gold standard. This involves the consideration of:—

(*a*) international monetery situation generally, more especially our exchange with America:

(*b*) the post-war internal monetary policy of this country and its consequences.

(a) *International Monetary Situation.*

4. Since this country is the international clearing house, both for money and goods, a *general* return to the gold basis by the principal trading countries would, in the opinion of the Federation, be greatly to our benefit; it would not only ensure stability to the more important exchanges, but would go a long way towards restoring its pre-war mobility to international trade consistently with a reasonable elasticity in our own currency system. Moreover, it is clearly in the interests of this country, as the centre of the British Empire within which far the largest portion of new gold from the mines is annually produced, to maintain the position of gold as the monetary standard. But since such a general return, with Europe in its present condition, appears as yet to be impracticable, the Federation is compelled to approach this question on the assumption that what is contemplated is that this country should act alone. The immediate result of a return to the gold standard, together with a free gold market, by this country acting alone would be the raising of the exchange value of the £ sterling to parity with the American dollar (it being assumed that a de-valuation of the £ sterling is ruled out of consideration).

5. Since, however, the position of the exchange between the two countries ultimately depends on the level of prices within them, and British prices are at present about 10 per cent. above American prices, an immediate return to parity with the dollar appears to the Federation to involve either:—

(1) The British price level being forced down to the American, which in present circumstances would represent for us a measure of drastic deflation, or

(2) The American price level rising to the British level, i.e., a corresponding measure of inflation in America.

(1) *Consequences of Deflation.*

6. The consequences of thus rapidly raising the real value of our money by 10 per cent. would be:—

(*a*) serious temporary dislocation of trade and a probable increase in unemployment due to the effect of the *certainty* of a period of falling prices upon producers, traders and buyers;

(*b*) a severe fall in British prices involving serious loss to all holders of stocks of commodities and to all who trade on borrowed money;

(*c*) a serious industrial dislocation due to the necessity of reducing money wages by 10 per cent., which would in present circumstances seriously increase the difficulty of maintaining industrial peace;

(*d*) a strong probability that a severe check would be administered to export trade since the improvement in the exchange value of sterling would be likely to precede and to move faster than the adjustment of internal prices;

(*e*) an increase in the real burden of the National Debt as a result of revenue falling with prices, while interest charges would remain unaltered.

(2) *Possibility of American Inflation.*

7. On the other hand, although, as in all matters dependent on conscious human acts, it is impossible to make any confident prediction as to the prospects of inflation in America, there appears to be a strong probability of another rise in American prices when account is taken of the extremely strong influence exerted by the recent continued increases in the enormous gold holdings of the United States. The Federal Reserve Board has already admitted in a recent report that special steps had to be taken last year to prevent the inflation due to this factor. Since these measures involved, amongst others, selling the great bulk of the open market securities of the Federal Reserve Banks, and the substitution of a substantial amount of gold certificates for ordinary bank notes, it seems improbable that they can be repeated on a large scale. Consequently, it seems justifiable to hope that time is on our side and that no special harm can be done by adopting a waiting policy.

8. From these points of view, therefore, it appears to the Federation in prospect of the undoubtedly serious strain which would be thrown upon industry in this country by an attempt at drastic deflation, and of the possibility that the position of the sterling exchange will tend to improve in a not too distant future through a rise in American prices without the necessity of such a sacrifice on our part, that a British initiative in restoring the gold standard at an early date for that purpose would be premature and inadvisable.

(b) *Monetary Policy of this Country.*

9. The Federation understand that the monetary policy which has been pursued by the Treasury and Bank of England since the war has, broadly speaking, been laid down by the report of the Committee on Currency and Foreign Exchanges after the War, usually referred to as the Cunliffe Committee. One of the most important recommendations of that Committee dealt with the question of the reduction of the issue of Treasury notes outstanding at the time. They were faced by the fact that the enormous changes which took place in business conditions, prices, and our National Debt during the war had made it impossible to decide how many of these notes would be redundant until something approaching the post-war normal level of business and prices had been obtained.

10. The Cunliffe Committee, presumably anticipating a fairly early return to the gold standard, recommended that, as a first step in adjusting the amount of the currency, the actual maximum fiduciary circulation in any year should be fixed as the legal maximum for the following year; and this recommendation was embodied in a Minute issued by the Treasury in December, 1919.

11. This limitation, the Federation understand, was intended as a temporary measure only, to continue in effect until some more permanent arrangements could be made; these permanent arrangements being conditional upon a return to the gold standard together with the accumulation of a minimum central gold reserve of approximately £150,000,000. As the conditions for these permanent arrangements have not yet been reached, the temporary arrangement embodied in the Treasury Minute has continued in force. It appears to the Federation that the effect of the operation of this Minute through a prolonged period of industrial depression has been to render the present currency system of this country extremely inelastic.

12. The fundamental requirement of trade is a system of monetary regulation of an elastic character capable of expanding and contracting in accordance with the needs of industry

13. From this point of view the existing limitation of the Treasury note issue appears to the Federation an unsatisfactory feature in our monetary policy; for even if it were understood that the legal maximum would not actually be enforced in an emergency, it is inevitable that the credit policy of our monetary authorities should be influenced by the fact that any suspension of the limitation would inevitably be regarded by the world in general as a sign of financial weakness.

14. The Federation would welcome, therefore, revision of our system of note issue which would lead to greater elasticity without involving the loss of financial prestige. If an amalgamation of the Treasury and Bank of England note issues could be made on such terms and conditions as would restore greater elasticity and would give the Bank, as the note issuing authority, greater freedom than it possesses at the moment to expand credit in the event of an expansion in trade, the Federation would approve such a step.

15. On the other hand, to combine the transference of the Treasury note issue to the Bank of England with an arbitrary fixing of the amount of the fiduciary issue at a figure which would not be compatible with its expansion to meet the commercial requirements of the country, would represent a deliberate attempt to pursue a policy of monetary deflation which would not be in our industrial interests. Nor would it carry out what appears to have been the policy of the Cunliffe Committee when it recommended that the transference should only be made after experience of the working of the gold standard had shown what the amount of the fiduciary issue might safely be. This experience has not yet been obtained.

General Conclusions.

16. The Federation realise, however, that while a waiting policy may be to the more immediate interests of those engaged in industry, it may be urged that other needs make it inexpedient that we should wait much longer, in the absence of some more definite assurance in regard to the future course of American prices. They would point out, however, that if the stability of any newly regained gold standard is not to be jeopardised, it seems essential that some agreement should be arrived at with the American Central Banking Authorities for regulating the value of gold until such a time as it again comes into general international use. It appears to them that some such agreement is an absolutely necessary preliminary to a return to gold by this country, unless the greatest risks are to be run, and it appears to them reasonable to suppose that the more imminent the possibility of inflation in America becomes, the more ready should the banking authorities of America be to make some such agreement with this country.

17. The Federation would desire to emphasise in this connection that the most pressing need of industry at the present time is for stability, both national and international. That stability cannot, in their opinion, be achieved by one country acting alone, but only by a general agreement on the part of the principal trading countries of the world to re-establish a common monetary standard. They consider that the urgency of this problem is greatly increased by the possibility of a rapid expansion of world trade which may be expected to follow a European settlement.

APPENDIX II.

	VOLUME OF CERTAIN BRITISH GOODS EXPORTED.								
	1924.				1925.				1926.
	First Quarter.	Second Quarter.	Third Quarter.	Fourth Quarter.	First Quarter.	Second Quarter.	Third Quarter.	Fourth Quarter.	First Quarter.
Coal Th. tons	15,706	15,425	15,661	14,859	13,102	12,746	11,617	13,352	13,171
Iron and Steel Goods Th. tons	956	1,068	905	922	936	896	867	1,032	1,083
Machinery Th. tons	104	116	117	126	129	125	127	135	130
Cotton Yarns ... Mill. lbs.	38·3	49·2	35·8	39·8	49·8	47·0	43·0	49·7	48·4
Cotton Piece Goods Mill. sq. yds. ...	1,105	1,119	1,117	1,103	1,243	1,041	1,075	1,077	1,126
Woollen and Worsted Yarns Mill. lbs.	15·0	18·5	14·2	18·2	17·3	12·4	12·3	15·4	9·4
Woollen Tissues Mill sq. yds. ...	40·7	34·8	50·7	38·5	38·0	28·5	37·6	28·1	34·3
Worsted Tissues Mill. sq. yds. ...	16·3	12·2	13·8	14·5	15·2	10·7	10·5	10·9	13·3
odium Compounds Th. tons	109·0	136·0	130·5	125·4	117·4	124·1	104·4	117·0	99·5

The following table gives the quarterly figures for British export trade in value :—

		EXPORTS OF BRITISH MERCHANDISE.		
		Raw Material Exports. Values £ mill.	Manufactures, Exports. Values £ mill.	Total British Exports. Values £ mill.
1924	1st Quarter	29	148	193
	2nd Quarter	27	153	195
	3rd Quarter	24	159	201
	4th Quarter	26	158	212
1925	1st Quarter	24	166	209
	2nd Quarter	21	147	184
	3rd Quarter	19	150	187
	4th Quarter	21	154	194
1926	1st Quarter	20	153	190

APPENDIX III.

GENERAL COMMENTARY ON THE RELATIONSHIP OF MONETARY EVENTS IN GREAT BRITAIN AND THE U.S.A., TOGETHER WITH SUMMARY OF BRITISH CREDIT CONDITIONS, 1924-1929.

(Prepared by Economic Staff of the F.B.I.)

Introduction.

1. In order to present something approaching a connected account of events since the middle of 1924, when the Federation submitted its written evidence to the Committee on Currency and Bank of England Note Issues the following brief commentary and summary have been prepared of the monetary developments in Great Britain and the U.S.A. from 1924 to 1929.

General Commentary.

2. Taking as the point of departure monetary conditions during 1923-4 the period covered by the Federation's Currency Committee's evidence to the Government Committee, the view taken by the Federation was that the excessive share of the world's gold supplies for banking reserves, which had accumulated in the U.S.A. in the war and post-war periods, together with the superabundant volume of credit created upon it, was likely at a relatively early date to produce an inflationary movement in the U.S.A. which would raise the American price level to our own.

3. If this reading of the situation were correct, it was obvious that a waiting policy was to our advantage, as we should thereby be enabled to resume the gold standard without the unpleasant necessity of pursuing a policy of deflation with its attendant falling prices, trade depression and increased unemployment. Moreover, a return under such auspicious circumstances would have assisted British prices to recover from the very low level to which they had already fallen, encouraged the reabsorption of the unemployed into industry, and resulted in the much-needed alleviation of the burden of taxation and various forms of industrial indebtedness under which British industry was then labouring.

4. The Federation was encouraged to take this favourable view by the fact that the superabundant supplies of money in the U.S.A. had already been responsible for a boom in trade and prices during the period 1922-3.

5. While it was certainly true that the Federal Reserve Banks had by raising their rediscount rate, and more particularly reducing their "open market assets," managed to check that movement and prevent the inflation of credit and prices from assuming dangerous proportions, the Federation was doubtful whether the Federal Reserve Authorities would be in a position to repeat this process indefinitely; especially as the principal weapon used on that occasion to control the money position, namely the sale of "open market assets," appeared to have been deprived, in the process, of much of its future potency. In short, the Federation's view was that past experience made it in a considerable degree improbable that a country, situated like the U.S.A., and possessed of a superfluity of money resources, could permanently prevent those resources from exercising an inflationary effect on trade and prices within its borders.

6. The history of the period 1924 to October, 1929—when the break occurred on Wall Street—is made up of the various events in this country and the United States which were responsible for preventing America's excess of money from having free play in bringing about a rise in commodity prices. These events appear to us to confirm the conclusion that the inflation which culminated in the Wall Street collapse was much antecedent to the collapse itself and belongs to the years 1923-1926 rather than to 1927-1929.

7. The following figures giving the deposits of the member Banks of the Federal Reserve System may be taken as indicating the rate of growth of U.S. Bank Credit during the period under review:—

	Time Deposits.	Demand Deposits.
	Mill. $.	Mill. $.
30th June, 1922	7,175	14,252
29th Dec., "	7,645	14,816
3rd April, 1923	8,143	14,526
30th June, "	8,378	14,693
14th Sept., "	8,466	14,566
31st Dec., "	8,651	15,164
31st March, 1924	8,890	14,719
30th June, "	9,204	15,309
10th Oct., "	9,597	15,703
31st Dec., "	9,805	16,684
6th April, 1925	10,127	15,854
30th June, "	10,382	16,812
28th Sept., "	10,467	16,618
31st Dec., "	10,653	17,825
12th April, 1926	10,955	16,823
20th June, "	11,173	17,380
31st July, "	11,440	17,639
23rd Feb., 1927	11,818	16,831
30th June, "	12,210	17,735
10th Oct., "	12,459	17,374
31st Dec., "	12,765	18,170
28th Feb., 1928	12,923	17,305
30th June, "	13,439	17,607
3rd Oct., "	13,410	17,501
31st Dec., "	13,453	17,904
27th March, 1929	13,329	17,708
29th June, "	13,325	17,815
4th Oct., "	13,318	17,937

8. It will be seen that the main growth in time and demand deposits took place in the first rather than the second half of the period; the growth during the past three years has been quite modest.

9. The impression conveyed by this table that there has been no serious internal inflation of bank credit during 1927-1929 is supported by the fact that, as shown by the downward trend of U.S. prices and the favourable exchange, the velocity of circulation did not increase markedly during that period.

10. Further confirmation is provided by an analysis of brokers' loans which were the principal source of the funds used in Stock Exchange speculation. As the following table shows, though there was some increase in loans "By Banks" between the autumn of 1927 and early 1928, the period when the Federal Reserve Authorities temporarily adopted a policy of cheapening money with a view to helping Europe, during the remainder of the period they altered but little. The startling increase during 1928-9 came from Loans "By Others" that is to say from Non-Federal Banking sources. Loans "By Others" represent in the main the surplus earnings of various concerns including industrial undertakings, earnings which, incidentally, if they had not been loaned to the Stock Exchange would have been invested and so assisted in raising the commodity price level. From the middle of 1928 onwards the figures are swollen by the foreign funds which flowed in from abroad to participate in the boom.

	Brokers' Loans ($ millions).		
	By Banks.	By Others.	Total.
Jan., 1926 ...	2,540	585	3,125
July, " ...	1,960	646	2,606
Jan., 1927 ...	2,037	741	2,778
July, " ...	2,220	877	3,097
Jan., 1928 ...	2,812	990	3,802
July, " ...	2,472	1,760	4,232
Jan., 1929 ...	2,974	2,434	5,193
July, " ...	2,849	2,992	5,841
Oct., " ...	2,896	3,602	6,498

11. Whence were these enormous funds for speculative purposes derived? The answer is that apart from the foreign inflow, they came from the

(*a*) enormous increase in industrial and commercial profits;

(*b*) funds released by the Federal Reserve Banks in the earlier inflation, which had found their way into private hands.

12. Some idea of the magnitude of growth in industrial profits can be found from the following figures showing the net profits earned by 99 industrial corporations as compiled by the Federal Reserve Bank of New York:—

	$ millions.
1923	479
1924	416
1925	601
1926	737
1927	710
1928	882

13. To provide direct evidence that the Stock Exchange loans were in part the fruits of previous bank inflation is not possible from the statistics at our disposal. It may be observed, however, that, save for the fact that there was no general upward movement in commodity prices, or evidence of swollen industrial inventories, the position in 1927 to 1929 in many respects was strikingly similar to that which ruled in the post-armistice period of 1918-19 which it is generally agreed suffered from the effects of postponed monetary inflation.

14. Both these periods had this important feature in common, the financial situation was largely outside the control of the banks. Normally, the banks rely on keeping the activity of business within bounds by controlling the accommodation which they grant to traders. But if, as a result of previous loans, discounts to trading companies have been reduced to a low level, traders can to a considerable extent emancipate themselves from the banks. Selling such goods as they have in hand at high prices, and financing their own capital developments out of current earnings, they are continuously supplied with a surplus of ready money. This appears not inaccurately to describe the position of many industrial companies in America during the past few years where they have not only been able to economise their requirements of bank credit by amalgamation, that is to say, replacing the separate establishments of a number of small traders by one large corporation and keeping inventories and stocks at a minimum by using centralised mass production plants, but, in addition, they have in many directions been able to augment their earnings by taking advantage of their tariff protection to charge inflated prices to their home consumers.

15. In addition, there are many directions in which inflation can occur without directly affecting "commodity" prices—notably in Public Utility "Services" which are quasi-monopolistic in character and outside the reach of foreign competition. America's capital development in recent years has been largely in public utilities connected with the supply of water, gas, electricity and communications, items which are not represented in the ordinary "commodity" price indices. There is evidence to show that both the prices charged for these services and the earnings and profits accruing to their promoters have been unduly high.

16. But this explanation does not dispose of the question: Why has the inflation which has undoubtedly occurred as a result of America's accumulation, and retention within her own borders, of an excessive share of the world's gold supply failed to affect "commodity" prices.

17. It is we believe due to the relatively simple fact which was lost sight of when we returned to the gold standard, namely, that, despite the size of its gold hoard and the wealth of its depositors, the Federal Reserve System functions largely as a *national* bank only. The Bank of England, in the face of the vicissitudes and misfortunes of the post-war period was still the most powerful single *international* influence in the "commodity" markets of the world. With sterling back on a gold basis, in the words of a well-known monetary expert, it was again true that, "when the Bank Rate goes up, the effect is felt by every producer who sells to British merchants or to merchants financed directly or indirectly through the London money market. American producers are not immune. Many American products, including most of the staple crops, are partially dependent on world markets, and their prices are governed by world prices. A curtailment of effective demand in European markets reacts on American exporters and through them on American markets generally."

18. America's enormous consumption of the more essential raw materials notwithstanding, her staple producers still find that the prices of their produce are governed by world prices—in other words, the prices ruling in the London market.

19. If it can be shown that during the period under review Great Britain was pursuing a policy likely to result in a fall in the commodity price level, then this will be sufficient explanation both why British industry has had inflicted upon it more or less continuous deflation of the commodity price level and the Bank of England has failed in her endeavour to establish a stable relationship between the pound and the dollar.

20. An analysis of the inter-relation of U.S. and British monetary policies on the business conditions of their respective countries during the period which has elapsed since this country returned to the gold standard in 1925, we believe leaves no doubt that on the two most important occasions during the past five years when there has been a marked fall in world commodity prices, namely, the period 1925-27 and in the autumn of 1929, the policy of the Bank of England was a decisive factor, and that the attempts made of trying to increase the gold reserve of the Bank of England by deflating British prices to the American level has been akin to the process of a cat chasing its own tail.

Monetary Events in the U.S.A. and U.K. during 1924-29.

21. 1924-26. The middle of 1924 found the U.S.A. passing through a period of trade depression. To understand how this came about it may be recalled that in the period following 1920-21 the U.S. Federal Reserve Banks openly abandoned the statutory principle of "reserve proportions" (*i.e.*, basing their credit policy on the size of their gold reserves) and substituted in its place a policy of attempting to *stabilise* trade and prices. In pursuance of that policy American business had been assisted to emerge from the post-war depression of 1921 by a deliberate expansion of credit by all the Federal Reserve Banks. As by the beginning of 1923 prices had risen substantially and the *expansion* of credit showed signs of getting out of hand steps were taken to *contract* credit. The rediscount rate was raised to $4\frac{1}{2}$ per cent. in February and the Federal Reserve Banks holding of "open market assets" was reduced. Prices fell, production declined and unemployment increased.

22. By the middle of 1924 the Federal Reserve Banks had come to the conclusion that this *contraction* of credit had in its turn gone too far; the price index having fallen by June to 144.6 or 9 per cent below the level at which it had stood in March, 1923. The New York rediscount rate was successively reduced in May and June and finally in August to 3 per cent., the banks' holdings of securities being in the meantime increased. This reversal of policy started a revival of trade in the U.S.A. which it is not unreasonable to suppose might, if it had been allowed to proceed unchecked, have brought about a rise in U.S. prices sufficient to bring the British price level into adjustment with the American without any deflationary steps being taken by the Bank of England. Unfortunately the upward movement in American trade and prices happened to coincide with the decision of the Bank of England to take the initial steps towards strengthening our exchange position with a view to the return to the gold standard in the following year.

23. The choice before the Bank of England lay between encouraging British trade and the absorption of the unemployed into industry by allowing British credit to expand *pari passu* with that in America, neglecting the position of our exchange with America, and adopting a policy of credit restriction and so preventing a rise in the British level in order to improve our exchange.

24. In July, 1924, the decision was taken to restrict credit. The Bank Rate which had stood at 4 per cent. for nearly a year, though it had been largely inoperative, was made *effective.* This step, coupled with speculative anticipation of our return to the gold standard, raised the exchange, which had fallen at one time to nearly 4.20, to 4.78 by January (parity being 4.866). Early in 1925, a more drastic policy of credit restriction was put into force. Following a rise of $\frac{1}{2}$ per cent. to $3\frac{1}{2}$ per cent. in the New York Federal Reserve rate (to check the outflow of gold to Europe and the incipient internal inflation), the British Bank Rate was pushed up to 5 per cent. in March, 1925.

25. The unemployment situation which had ceased to improve since June, 1924, steadily became worse, and prices fell. The price level, according to the Board of Trade index number had fallen from 171 in January, 1925, to 143.6 in April, 1926. It reached 140.6 in March, 1927, after the coal dispute. Had that fall been confined to this country there is little doubt that the adjustment of British market prices, which was the objective, would have been achieved, though, of course, a considerable time would undoubtedly elapsed before the elements entering into British costs of production would have been adjusted to the new price level, *e.g.*, wages and the cost of living, transport charges, taxation, &c.

26. Unfortunately, the effect of this credit restriction was not confined to British prices, but was world-wide in its effect. American prices were not excepted. The result was that a greater part of the fall in British prices was counteracted by a fall in the American prices level. The American index fell from 149 in March, 1925, to 134 in April, 1927. In other words, while the value of the £ sterling was forced up, the objective aimed at was receding. New York might be the largest market for both money and commodities, but London was the dominating *international* influence.

27. 1926-29.—The history of this period is complicated by the fact that both the Federal Reserve Board's attempt to stabilise American industry and prices and the Bank of England's endeavours to strengthen her gold reserves were subject to disturbance and extraneous interference by events arising in connection with the rehabilitation of the currencies of such important countries as France, Italy, Belgium and Germany, with a view to their being relinked with gold. In particular, the steps taken by France and Germany during the period 1928-29 to increase their gold reserves introduced a sufficient element of competition in international monetary affairs to justify the description a "scramble for gold." But through all these interruptions, we believe, it is still possible to trace the mutual reactions of U.S. and British monetary policies.

28. British policy during 1926 and early 1927 was principally determined by the coal stoppage and its after effects; the Bank Rate remaining at 5 per cent. throughout. Developments in the U.S.A. were conditioned by the fact that, although the fall in the British commodity price level had been communicated to American prices, the supply of money was so plentiful in the American home market that any slowing up of trade due to the fall in commodity prices was masked by expansion in other directions. This was the period of the Florida land boom and the rapid expansion of the hire-purchase system; indeed, it is probable that it was about this time that the real inflation began which was later to deprive the banks of their control of the situation.

29. The New York rediscount rate never rose above 4 per cent., and for the greater part of the time (1925-1928) it stood at 3½ per cent.

30. Moreover, there was no appreciable reduction in the "open market assets" of the Federal Reserve Banks. The fall in commodity price level was due therefore to the credit restriction in Great Britain and not to any action taken by American bankers.

31. In 1927 the fall in commodity prices began to show signs of reacting on American business. The wholesale price index fell from an average of 146 in the first quarter of 1926 to 134 in the second quarter of 1927.

32. The index of manufacturing production which had risen to 108 in 1926 fell to 106 in 1927. In August, 1927, we find that the trade reaction was showing signs of becoming pronounced, the index of production falling to 100 by December. The New York rediscount rate was brought back to 3½ per cent. from the 4 per cent. to which it had been raised in the middle of 1926 following a dispute with the Chicago Reserve Bank. At the same time the banks' holdings of securities were increased, rising from $291 millions in May, 1927, to $606 millions in December, 1927. At the time this reduction in the rediscount rate was made, it was generally understood to have been prompted in part by a desire to help the Bank of England and the other European Central Banks out of their gold reserve difficulties. It had by this time become evident on both sides of the Atlantic that, unless there was some co-operation between New York and London, international price stability was impossible.

33. Following this relaxation of credit in the U.S.A., the sterling exchange, which had only temporarily touched parity since the return to the gold standard in 1925, and was at 4.855 at the end of July, 1927, had risen to above 4.88 by the end of the year and remained round about that level until July, 1928.

34. An outflow of gold from the U.S.A. began in September, 1927, and continued until July, 1928. The Bank of England who, though she had reduced her rate from 5 to 4½ per cent. early in 1927, had made it rigorously effective, received £24,000,000 of gold.

35. Early in 1928, as a result of this inflow of gold, the market rate weakened and an expansion of Bank credit occurred.

36. The fall in British wholesale prices which had been proceeding steadily ever since the end of 1924, at long last showed signs of coming to an end, and in the first quarter of 1928 showed signs of an upward turn.

37. Unfortunately early in 1928 the Federal Authorities took fright. An outflow of gold at the rate of 500 million dollars a year and the rising tide of speculation on the New York Stock Exchange led to widespread protest against the Reserve Banks' "cheapening" policy.

38. In January the Banks commenced to reduce their "open market assets" and in February the New York rediscount rate was raised from 3½ per cent. to 4 per cent. These measures proving ineffective, the rediscount rate was increased to 4½ per cent. in May and 5 per cent. in July; the export of gold stopped and the price level turned downward. Stock Exchange speculation, however, was unaffected, the prices of industrial stocks and shares and the volume of brokers' loans continued to go ahead.

39. From this point until the stock market collapse in October, 1929, the New York Stock Exchange boom dominated the international monetary situation.

40. The Federal Reserve Banks, finding their policy of increasing rediscount rates by ½ per cent. had failed, seem to have lost heart for a time and given up all hope of controlling the situation. Early in 1929, however, they reinforced their "open market assets" policy increasing by stages the acceptance buying rate from 4½ (*i.e.*, ½ per cent. below N.Y. rediscount rate) in January to 5½ per cent. in March (*i.e.*, ½ per cent. above N.Y. rediscount rate).

41. While, however, the rate for trade bills was pushed up to 6 per cent. the stock market remained unaffected. It may be presumed that this acceptance bill policy had been tried because of the refusal of the Federal Reserve Board to countenance a further increase in the New York rediscount rate, lest this should result in slowing down trade.

42. The acceptance policy having failed, despite the reduction of the bills held by the Federal Reserve Banks from over 500 millions to below 80 millions in July, permission was at last given and the New York rate put up to 6 per cent. in August. Unfortunately, the acceptance rate was at the same time reduced to 5⅛, which appears to have more or less neutralised the effect of that step.

43. In the meantime, following the lead of the U.S.A. to protect their gold reserves and stem the tide of European funds across the Atlantic, monetary rates were rising all over Europe.

44. The British Bank Rate was increased to 5½ per cent. in February, and by July thirteen other European centres had increased their rates.

45. The end came with the increase of the British Bank Rate in September to 6½ per cent. The fall in commodity prices which had followed the previous increase in February acquired momentum, and the cumulative effect of this on American trade, which was already suffering from the consequences of the high money rate ruling in the domestic market, led to a definite set back in American business: this was the precursor of the collapse on Wall Street which brought the era of domination of international monetary policy by the U.S.A. to an end.

Summary of British Credit Conditions, 1924-1929.

46. 1924.—The increased demand for credit for commercial purposes arising out of the improvement in British trade since the autumn of 1922 had been met without an increase in total credit outstanding, largely through the sale of investments and the use of funds released by the Treasury through the reduction of short-time public debt. The average holdings of cash, including deposits with the Bank of England, showed a very small decline over the three years 1922, 1923 and 1924, but this was probably partly offset by an increase in balances and cheques in course of collection with the other banks.

47. In the middle of 1924, initial steps were taken to prepare for the return to the gold standard in 1925. The rate on the 90-day bill, which at 3 per cent. had been out of touch with the Bank Rate for over six months, was, under pressure from the Bank of England, raised and pegged at about 3¾ from July onwards. The Bank Rate, however, remained unchanged at 4 per cent. This artificial pressure on money rates in London came at a time when interest rates in the U.S.A. were declining. The resulting difference in rates produced a heavy outflow of funds from New York to London and diverted foreign borrowings to the New York market.

48. Every encouragement was given to the appreciation of the sterling-dollar exchange which this flow of funds was causing; temporary arrangements were even made with New York for financing the autumn crop bills.

49. 1925.—At the beginning of 1925 the London bill rate, at about 3¾ per cent., was well above the New York market level, whether on acceptances, call loans or commercial paper. In the middle of February the New York rediscount rate was raised ½ per cent., the differential between London and New York money market rates thereby practically disappeared. In the first week of March, the Bank of England accordingly raised its rate 1 per cent., bringing it to 5 per cent., which more than restored the difference between open market rates in the two countries.

50. The general slowing up in British trade, which followed this increase in money rates, soon caused the bill rate to develop an easier tendency. By the end of April it had fallen from 4¾ per cent. to 4½ per cent., where it remained during May and June; this was still more than 1 per cent. above the New York acceptance rate. The easing in money rates became so marked in the summer that, by the first week in August, the London bill rate was 1 per cent. below the Bank Rate. This movement, together with the marked fall in prices and increased unemployment which had occurred, prompted the Bank of England to reduce its official rate to 4½ per cent. on the 5th August. At the same time, however, steps were taken to neutralise influx of gold and preventing an expansion of credit. Between January and August there had been a substantial fall in commodity prices from 171 to 157, according to the Board of Trade index, together with a decrease in export trade and general production. The outlook was further complicated by the possibilities of serious strife in the coal industry. The cumulative effect of these adverse influences continued to operate to diminish the industrial demand for credit throughout August and September. Between August 5th and October the market rate fell below 3¾ per cent. and was again 1 per cent. below the Bank Rate, notwithstanding the fact that the direction of gold movements changed and exports of gold on a considerable scale began. As a consequence the Bank Rate was reduced to 4 per cent. on October 1st.

51. About this time, a fundamental change occurred in the relation of money rates in London and New York Up to early August the London bill rates had been above the New York rates, not only on acceptances, but also on the commercial paper and call loan, but in the middle of August the position was reversed, and for three months we find British rates continually below both the call loan and the commercial paper rates in New York.

52. Under these circumstances it became more profitable to employ London funds in the call and commercial paper market in New York, with the result that a considerable movement of funds from London to New York occurred, followed by a fall in the sterling exchange and an outflow of gold to New York and the Continent. For a time the home supply of credit was protected from the effects of the outflow of gold by an increase in the Bank of England security holdings, but early in October this protection was removed and the Bank of England began to restrict credit. Over £15 millions of securities were sold and this, together with a further loss of £5 millions of gold, caused a decrease of £18 millions in Bank of England deposits. This had an immediate effect upon the market rate, which rose to 3⅞ per cent. in November and to 4 per cent. at the end of the month. Thereupon the Bank of England attempted to reverse its policy by buying back the securities it had sold, ignoring the continuing loss of gold. The situation in the London market, at this time, was very involved. From the complex of influences operating we may evaluate three:—*first*—the heavy demand for gold from the East Indies in connection with the rubber boom; *second*—the growing home demand for credit, following the artificial stimulation of trade by the coal subsidy, and *third*—the removal of the embargo on foreign investments in November, together with the considerable activity on the Stock Exchange which ensued. The hardening of money rates to over 5 per cent. in December, completely revised the relation of the London and New York markets, which had prevailed during the period August to October, brought the bill rate to par with the New York call loan renewal rate, and to 1½ per cent. above the New York acceptance rate.

53. 1926.—The operations of the monetary authorities during 1926 were determined by the situation arising out of the coal stoppage; the disorganisation of the franc, which fell to 244 francs to the £ in July, had an indirect effect only. The Bank Rate remained unchanged at 5 per cent. throughout the year, despite the temporary reduction of the New York rate to 3½ per cent. in April. The Bank of England continued to secure a considerable addition to its gold holdings, which rose from £145 millions to £151 millions during the year, in face of the return of the New York rediscount rate to 4 per cent. in August.

54. 1927.—1927 was a period of recovery, following the resumption of work in the coal mines. The operations of the Banks were circumscribed by the fact that a large volume of credit had become temporarily frozen during the coal stoppage. The tendency for the margin between the money market rate and the 5 per cent. Bank Rate to widen during November and December of 1926, became more marked in the earlier months of the year 1927. The bill rate fell to nearly 1 per cent. below Bank Rate before the end of February and was less than ½ per cent. above the New York acceptance rate. This movement forced the Bank of England to make a long overdue reduction in its rate. The decrease, however, was ½ per cent. only and, despite the reduction by New York of its rate to 3½ per cent. in August with the avowed object of assisting European currency reconstruction, no further reduction was made during the remainder of the year. This was no doubt partly a consequence of the steps taken by the Bank of France in connection with the stabilisation of the franc. That the Bank of England was unwilling to make any change in its rate during the second half of the year is indicated by the fact that the co-operation of the money market was enlisted to maintain the bill rate unchanged at $4\frac{5}{16}$ per cent., thereby keeping the 4½ per cent. Bank Rate fully operative. If such steps had not been taken, the bill rate would, no doubt, have tended to fall owing to the increase in the differential between the London bill rate and the New York acceptance rate from ½ per cent. at the commencement of the year to nearly 1 per cent. during the last quarter, and also from the fact that the second half of the year witnessed a slowing up in the demand for credit following a period of exceptional activity due to the working off of accumulated orders of the coal stoppage period. The Clearing Banks' figures expanded during the year, deposits from £1,697 millions in the first quarter to £1,748 millions in the fourth quarter, and advances from £919 millions to £931 millions, the major part of this expansion being made possible by a reduction amounting to nearly £20 millions in Clearing Banks' investments, and not by any increase in the basis of credit by the Bank of England. The Bank of England in fact pursued a restrictive policy by selling securities throughout the year, the average for "other securities" falling from £77 millions in the first quarter to £58 millions in the fourth.

55. 1928.—The outstanding features of monetary history of 1928 were, first, the unification of the note issues in the Currency Note Amalgamation Bill which became law in November, second, the fluctuations in gold movements, and third, the beginning of the real struggle for control between American Reserve Banks and Wall Street speculators. The magnitude of the gold movements, for which this was responsible, are well illustrated in the experience of the Bank of England, where we find a heavy inflow amounting to £24 millions of gold in the first eight months of the year followed by a loss of £22 millions in the remaining months. At the commencement of the year, under the influence of the gold inflow, the Bank of England's control of the bill rate at $4\frac{5}{16}$ per cent. broke down, with the result that the rate fell steadily month by month to slightly over 3¾ per cent. in June, in face of the rise of ½ per cent. in the New York rediscount rate in February. During the period January to June, the Bank of England partially neutralised its acquisitions of gold by the sale of £12 millions of its securities. Following a slowing up in the rate of gold inflow during July and August, however, and the further increases in the New York rate to 4½ per cent. in May and 5 per cent. in July, it intensified its neutralisation policy, so that against a further acquisition of £3 millions of gold, the Bank of England sold £19 millions of securities; the net result for the first eight months being a sale of £31 millions of securities, against a gain of £24 millions of gold.

56. The credit stringency imposed by this policy, especially in August, had an immediate effect upon the bill rate, which rose to 4¼ per cent. reaching 4⅜ per cent. by the end of the year, bringing it again in touch with the Bank Rate. Both the Bank of England's policy in the second half of the year and the threefold rise in the New York rediscount rate were largely determined by the struggle, which was then proceeding in U.S.A. between the Federal Reserve Banks and Wall Street. The New York Stock Exchange boom not only drove up domestic money rates (in particular call loans from 4·24 per cent. to 8·60 per cent.) but began to attract funds from all over the world, including this country. During the last four months of the year, the Bank of England lost £22 millions of gold. These developments were responsible for what in a sense may be regarded as an innovation in the Bank of England policy, namely, a reliance on the purchases and sales of securities rather than movements in the Bank Rate for exercising control over the money market. In addition, it deserves to be mentioned that London signalled her regained independence and returned to her position as principal international financial centre by once again financing autumn produce bills, despite the difficulties of her monetary position. Reference should also be made to the actions of the joint stock banks which did their utmost to provide a greater volume of accommodation in face of the Bank of England's resolute control of the basis of credit. Deposits expanded from £1,743 millions in the first quarter to £1,807 millions in the fourth, and advances from £939 millions to £957 millions.

57. 1929.—In this year, speculation on Wall Street ceased to be merely a national matter and became an international problem. Already in the latter part of 1928 the exports of funds by New York had been discontinued, being replaced by a rapidly growing inflow of foreign funds under the impulse of the attractive rates quoted for call money. The world bought dollars through London to lend to New York. As a consequence the dollar-sterling rate fell to approximately gold point, remaining at that level until September, 1929. The difficulties of the Bank of England were greatly intensified. In response to the efflux of gold, the Bank Rate was raised to 5½ per cent. in February. This afforded a temporary respite only, being insufficient to withstand the drawing power of ever-increasing New York call rates upon international funds. In addition her gold resources were subjected to a heavy drain on account of the operations of the Bank of France in connection with the movement of her heavy foreign balances accumulated during her inflationary period. Germany was also a disturbing factor. As a result we find that the Bank of England's reserves which stood at £160 millions early in May had fallen to just below £133 millions by the end of September. The Bank of England relied mainly upon its "open market assets" policy as long as it could, neutralising the outflow of gold. By the middle of September an increase in the Bank Rate could no longer be delayed, as it had become evident that the limits to neutralising an outflow of gold by purchases of securities had been reached. On the 26th September the Bank Rate was raised to 6½ per cent. This increase following the rise in the New York rediscount rate in August brought the culmination of the upward movements of international money rates and the collapse on Wall Street.

58. During the first part of the year, the Clearing Banks made a valiant attempt to assist the recovery of trade by expanding advances at the expense of a reduction of their cash ratios. By the middle of the year, it became clear that their resources in this direction had been exhausted and this, together with the cumulative effect of the increase in money rates under the influence of New York brought a general slowing up in trade which is still proceeding at the time of writing, despite the rapid fall in money rates since the Stock Exchange collapse.

3078. *Chairman*: Gentlemen, this afternoon Sir Roland Nugent and Mr. Glenday are good enough to give us their evidence. Just for matter of record, Sir Roland—you are Director of the Federation?—(*Sir Roland Nugent*): Director of the Federation.

3079. Mr. Glenday, you might tell us your precise relation to the Federation?—(*Mr. Glenday*): I am Economic Adviser and head of their General Economics department.

3080. In the first place, the Committee would like to express to you their gratitude for the statement which you have been good enough to print and send in. I understand it is the desire of the Federation to present their evidence in two stages?—(*Sir Roland Nugent*): Yes. What actually happened was, we had the whole evidence prepared by a Sub-Committee and submitted to our Council. We had two halves of our evidence prepared. When we brought it to our Council the first half, that you have here, was passed unanimously. There was some doubt in the minds of some members of the Council about the second half, which deals purely with the internal relations of finance and industry. The Council wanted it redrafted and brought before them again, which I am afraid will entail a certain amount of delay.

3081. This statement represents the unanimous view of your Council on the topics with which it does deal?—Yes.

3082. We may look for the second part a little later on?—A little later on; it will be a matter of, I should think, two months, because our whole constitutional mill has got to grind again; it is a rather slow process.

3083. With regard to the statement which is now in our hands, you deal there with the international aspect rather than the internal aspect?—Yes.

3084. May I take it that the part which you have still to consider is the part dealing with the suggested remedies or expedients which the Federation think might be resorted to in the interests of industry?—No, I should hardly put it that way. I think the second part deals more with an examination of the internal relations between finance and industry in this country. We draw attention to certain, as we consider, minor defects in the machinery, and possible suggestions for dealing with them, but I do not think my Committee or the Council would regard it as having anything like the importance of the international portion of the evidence. I think I can go so far as to say, if the international gold standard had been working satisfactorily there would probably have been no serious complaint of the working of our internal financial structure. It is only that the strain of the past few years has shown up certain apparent weak spots in the internal machinery. We rather regard the first evidence as in the nature of an attempted diagnosis of the illness, so to speak, and we felt that, until that diagnosis had been confirmed by people with far better knowledge than we have, it would be hardly right for us to suggest remedies. Certain remedies appear more or less by implication in this evidence, and, of course, there are others which could be suggested.

3085. I quite understand the outlook of this evidence. You, as representatives of the industries of this country, are painfully conscious of the fact that you have been hit somehow?—Yes.

3086. And you have been looking round to see whence the blow came?—Yes.

3087. And the view of the Federation is that at any rate to some extent the difficulties under which you are labouring are explained by monetary considerations?—Yes.

3088. That is really the general outline?—The general outline.

3089. May I for the purpose of opening our discussion take the last sentence of your summary (paragraph 32)—"We regard the fact that the pre-War international financial structure has not been re-established, and the consequent pressure of economic necessity on the industries which grew up in, and were dependent on, a continuance of that structure, as the underlying cause of the persistence of a condition of depression in British industry." So far as the international financial structure in existence before the War is concerned, your view apparently is that it operated adequately?—Broadly speaking. One is conscious, of course, that it had defects. For instance, it exaggerated trade cycle movements. But on the whole it was an adequate structure.

3090. It was a delicately devised mechanism which on the whole worked satisfactorily?—I think I would rather put it, we should be very glad to see anything as good to-day.

3091. The result of your investigations has been to satisfy your mind that that mechanism is not working under present conditions with the same satisfactory result?—Yes. But you must realise we are working on insufficient data really. We are fully aware of this, and that we have probably not the capacity or the knowledge to give it the thorough analysis that it should have. These are tentative conclusions, if I may put it that way.

3092. Quite. You do not find that the whole of the present misfortunes can be laid at the door of finance, I understand, but you regard financial questions as having a material bearing; the precise extent to which finance is the cause of the trouble you have not been able to ascertain, and probably nobody can?—No. I think it would be fair to say that we should regard it as a major cause; certainly not the only cause.

3093. These are the very words you use yourself. In paragraph 7 you say, "Although it may perhaps be urged that the circumstances associated with our return to the gold standard in 1925 were not alone responsible for the unfortunate series of events set out above, the Federation believes that it is impossible to deny that they were a major cause"?—Yes.

3094. A considerable part of your statement, if I may be quite colloquial for the moment, is occupied with the agreeable task of saying, "I told you so"?—Yes; a certain amount.

3095. You set out there a warning which you say you addressed to the authorities?—Yes.

3096. And you say if they had hearkened to you many of these misfortunes which have overtaken us would have been avoided. You are concerned to show how many of these misfortunes are attributable to what you foresaw and forewarned them against?—To a certain extent, yes; but I think we are careful to say, supposing other events had not happened over which the monetary authorities in this country, at any rate, had very little control—if other people had not done other things—probably the course our financial authorities took could have been fully justified.

3097. That is very interesting. This country's action was in your view out of step to some extent with the action of our competitors abroad so that a state of dislocation has been brought about?—Yes.

3098. Whereas if the policy of this country had been adopted uniformly throughout the world we should not have had this dislocation?—No. We should have had something approaching the pre-War system with the necessary modifications for the post-War conditions, and a great deal of the industrial depression of the last four or five years would in our view have disappeared.

3099. That draws attention to the international position?—Yes.

3100. Is it in your view largely in consequence of our country's policy not having been adjusted to the policy of our competitors abroad that the trouble has arisen?—I think it is partly due to that. It is a question of tactics; it is very difficult to say whether it was right or wrong. Possibly our authorities were a little premature in what they did. How far they were responsible for what happened afterwards it is difficult to say. It is rather that their lead was not followed; to put it colloquially, we issued an invitation to other countries to play the international gold standard game, and most of the other countries' monetary authorities refused to play the game, and went on playing their own national game. It takes more than one nation to make an international gold standard work.

3101. *Sir Thomas Allen*: Could any other country have adopted such a policy at the time in relation to the gold standard?—The United States, anyhow.

3102. Could any European countries have done so? —Well, it is all very conjectural, but if the United States, for instance, had played the game, if France had refrained from playing her ultra national game the situation would have been much easier. They all made it difficult for each other, and eventually impossible for us.

3103. *Professor Gregory*: In your memorandum you refer to the difficulty of re-establishing the gold standard on the principles of the pre-War gold standard while other countries are playing a national game. It is not quite accurate, is it, that this country returned to the gold standard before any other European country did? Holland went back to the gold standard at the same time as we did, and other European countries have now stabilised their currency very largely as a consequence of our action?—Yes, but ought we not to draw a distinction between formally going back to the gold standard and carrying out the international trade and financial policy which a genuine return to the gold standard should imply?

3104. I only wanted to get from you an indication of what you regarded as the rules of the international game?—(*Mr. Glenday*): It is difficult to put simply, but the gold standard as we had it before the War might broadly be described as a system by which you collected together the world's savings and distributed them in different parts of the world where they could be most profitably used. An important part of that system was the preparation of new markets for our goods by the issuing houses and other similar financial organisations. In addition the system comprised arrangements for keeping the developing countries of the world moving together more or less in step; if one country got out of step then its banking authorities were compelled to take action, owing to the movement of gold which occurred.

3105. This international export movement is rather a consequence of the economic adjustments necessary for the gold standard than the working of the gold standard itself. What I want to get from you is how you think the gold standard could be worked in the post-War period as compared with the way the gold standard was worked in the pre-War period?—That is a rather difficult question to answer, because we cannot relate the gold standard of the post-War period to that of the pre-War period. If you are to make it work in the post-War period you have to re-establish the relations between this country and other countries which I have just mentioned, e.g., between agricultural and industrial countries. Moreover, you have to get the industries of the world broadly readjusted to begin with.

3106. I quite agree, but all that is rather a heavy burden to place on the working of the gold standard. One wants to get an indication of the adjustments which are necessary between raw material countries and industrial countries. That can hardly be described as a direct effect of the gold standard?—I should say it can, if you include in the gold standard the dependent financial structure. We deliberately use the word "structure." (*Sir Roland Nugent*): We mean the whole system, not the ornaments of it.

3107. Not the gold standard, but the economic system?—(*Mr. Glenday*): We regard the gold standard and the system of international trade as having been inseparable parts of a single system.

3108. *Mr. Keynes*: You mean that under the pre-War system, if America lent as much as her gold stock justified, her Bank Rate would have altered with international fluctuations?—Yes.

3109. And if France had not made this accumulation of liquid resources she could have used her lending market so as to absorb foreign issues?—Yes.

3110. As I understand this document you express yourself in favour of an international structure of the old kind?—Yes.

3111. You say that that sort of arrangement will not work satisfactorily unless all the important countries of the world are adhering to certain principles?—(*Sir Roland Nugent*): Yes.

3112. You add that the two countries which you name are not acting in accordance with the principles of the international structure?—I might go so far as to say that hardly any country but this is.

3113. What do you propose?—We do not propose anything. As I said, we are very doubtful whether our diagnosis is right. We have not had sufficient material or knowledge for it. Assuming it was right, obviously the only way out would be for a general agreement between the Central Banks and other authorities that they would make it work. I take it, broadly speaking, the first agreement would be to pursue such a course and such a policy relative to each other that you got a satisfactory redistribution of gold; secondly, probably, that you would agree to certain common measures for the economising of gold, either for reduction of reserve ratios, or something of that nature, everybody doing more or less the same; and, thirdly, that you would have some arrangement that the Central Banks should be in moderately close touch with each other, and not allow this extraordinary maladjustment to occur again.

3114. A sort of federal reserve system for the world. It would have to be agreed by America that they would not be influenced by what was happening on Wall Street?—Obviously.

3115. Do you think there is any prospect of that? —If I may give you my personal opinion, I should not say there was. Of course, the chance is better if the Americans have a bad time this year.

3116. You would also require that the Bank of France should adjust its policy with regard to reserves to something like our policy?—Yes.

3117. Do you think that is at all likely?—It is a matter of judgment, and of knowing the men you have to negotiate with, and so on. I have not had that experience. I am expressing a personal opinion; I am, I am afraid, getting a long way from anything that has been discussed at the Federation; I should say that supposing you could really convince the authorities of the Bank of France and the Federal Reserve Board and the other important monetary authorities of the world that the alternative was a definite national policy in this country, with all that that implied, you might persuade them that they had better have the devil they know than the devil they do not know. (*Mr. Glenday*): May I supplement what Sir Roland Nugent has said by suggesting that France is not an "international" country—it was not before the War; it did not play any great part in "international" trade movements.

3118. Was it not the biggest lender next to ourselves?—Was it a free market? I thought it was limited to certain countries. It was not really in the "international" system.

3119. *Mr. Brand*: They had a big effect on it; they lent very large sums to all European countries? —Would you have said they were as important as ourselves or America are now?

3120. *Mr. Keynes*: I suppose France was as important to Europe before the War as we were to the rest of the world. If your diagnosis is right, and if the consequences to British trade are as serious as you think they are, would you just sit back hoping that we should persuade other countries to alter their policy, or would you do something to change our policy?—(*Sir Roland Nugent*): I have got beyond anything discussed by the Federation. What I am saying now is only my opinion based on a rather desultory discussion at our preparatory Committee, though I think the Federation might agree with a good deal of it. I should think the first thing we should say would be that there must be a really serious effort to get the international system going; if you cannot, you are driven back on the only other thing, the national.

3121. You mean we ought to start by having a very important international conference, in which we would put it very straight to the other countries that this system must either be made to work or we shall drop it?—Yes, I think I would go so far as that, because it seems to me you have had industry under a terrible strain just about as long as psychologically it can stand. I have never known people so depressed.

3122. *Mr. Bevin*: Right throughout industry?—Right throughout industry I have never known people so depressed. The effect of the strain has been cumulative; it has been going on so long. It is largely a psychological effect; actually at the moment trade is a little better than it has been for some time.

3123. *Sir Thomas Allen*: Are we verging on bankruptcy?—Oh, no. But you may have a very serious reaction if you keep people indefinitely under a terrific strain.

3124. *Mr. Keynes*: Would you ask foreign countries so to adapt their currency policy as to prevent any further fall in prices? Would you ask them to bring back prices nearer to the 1924 level?—Yes, I think one would have to ask them to create a position in which prices could rise slowly.

3125. If you more or less stabilised the position at say 1929 levels, do you think that would solve our problems?—No, I do not think it would, because of the effects of 1924 and 1925 upon us.

3126. Then are you not almost asking the other countries not so much to pursue an international policy as to pursue that national policy which happens to be our policy?—No, because there are clear and obvious signs that they are going into a trade cycle depression, which ought to make them as anxious as we are to pursue an international policy.

3127. Yes, if you were going to stabilise on 1929 prices. It seems to be one thing to ask them to avoid the present slump and another thing to ask them to let prices go up 10 per cent. If their acquiescence is limited to the first, would that solve our problem?—I am conscious it would go some considerable way towards it, but I do not think anybody can say now whether we have increased efficiency or got down costs sufficiently to set off the 10 per cent. of 1925. I do not think one can say whether we have until the world is a little more normal, and there has been a cessation of the drop in prices. Personally, I think we have gone a good long way towards setting off the effects of 1925; I think there has been a considerable increase of efficiency.

3128. *Professor Gregory*: In other words, if one could prevent world prices from falling further one might make an attempt to get other countries back to gold?—We might. I am not certain. The balance of my mind is that way. (*Mr. Glenday*): It is a question of the position of equilibrium. It is very difficult for us to say when you are in a position of equilibrium, because the positions of equilibrium which economists generally discuss very rarely exists, except for a moment of time. It involves comparisons between costs of production, wholesale and retail prices, in this and other countries. If it turns out that America finds it difficult to revive with wages and costs at their present level, she will be encouraged to favour an inflation of prices. It depends on how much inflation you would need in America to bring them back to full production.

3129. *Mr. Keynes*: If you were to employ all the people who are now unemployed on making goods for export, you would have a very large increase of foreign investment?—I should put it the other way round.

3130. Do you think we could reasonably hope to increase our export trade on the basis of 1929 prices to such an extent as to absorb the bulk of people now unemployed in making such goods directly or indirectly?—There again I find it a very difficult question to answer, because from the trade point of view we seem to work in discontinuous cycles. It all depends on the extent to which the world is able to exploit new inventions and open up new markets to provide sufficient stimulus in the next upward movement of the trade cycle. The fact that you have "missed the 'bus" on one occasion does not justify the belief that you will catch up in the next upward movement. You may have to look in some other direction for the next stimulus. For example, during the past five years motor car and road development in certain countries went ahead very rapidly. That work having been done, it is no longer able to provide the necessary stimulus for expansion, and it is conceivable that it might take some time to devise some new stimulus to replace it—or alternatively discover other countries to develop in their stead.

3131. In the meantime, apart from producing for export, would you not have any supplementary ways of employing the unemployed?—It is dangerous to express an opinion, because as soon as you start deliberately stimulating home trade you set in motion forces which seem to me must militate against developing your export trade in the future.

3132. You are recommending a policy for getting as near as possible back to the nineteenth century division?—I think Sir Roland Nugent will bear me out when I say that this is a question to which we hoped that the Committee would provide an answer.

3133. *Professor Gregory*: What do you think?—If you ask me for my personal opinion, I do not think there is very much hope for us if we tried to confine ourselves to the home market. The markets overseas used to give us compound interest investments, and I do not see much beyond simple interest investments in this country.

3134. *Mr. Keynes*: Does it not follow from that, that while this policy may be excellent as part of the solution it is not the whole thing?—I quite agree, but the other part should be regarded as a palliative only.

3135. *Professor Gregory*: Imagine, for the sake of argument, that you have had this disequilibrium between costs and world prices going on for four or five years. The tendency would be to drive capital and labour into the home industries; the superior attractiveness of selling goods at home instead of abroad would drive employers into the sheltered trades. Supposing home prices remain up and prices abroad do not, the tendency will be to encourage the sheltered trades at the expense of the unsheltered?—My difficulty in answering that is that you are considering competition for the *existing* market and I am looking to the establishment of *new* markets and the exploitation of *new* commodities. I cannot picture how the condition you mention could arise.

3136. You would not say that all the wants of all the inhabitants of this country are satisfied?—No.

3137. Consequently, if you leave things alone and let economic consequences work themselves out, you may arrive at a temporary equilibrium or permanent equilibrium, in which our foreign trade would sink at the expense of our domestic market. Would you regard that as a disaster?—I cannot envisage that situation, because it seems to me that in the past conditions were never left alone to work themselves out. We always had an active investment policy working ahead promoting new industrial development channels. Our investment policy was always dragging out our trade from its existing equilibrium. If you tried leaving things alone our trade would stagnate.

3138. There has been a very considerable transfer of employment from the unsheltered to the sheltered trades. The new industrial distribution of employment is very different from the pre-War one?—Yes.

3139. Do you think that any permanent harm would be inflicted on the country, without considering the monetary policy, if that process were to continue?—Provided you could find employment for those who are thrown out of work by increased efficiency, etc., I should say no. I am not quite sure. When we say we want to go back to the pre-War system we envisage I think the system as it was say from 1900-1914, when it meant a slow but steady rise in prices and an expansion of trade year by year.

3140. You are now recommending what you recommended to the Committee of 1924, a monetary system of elastic character capable of contracting or expanding according to the needs of industry. I want to get from you whether you think there is anything inherently wrong in diverting a certain proportion of existing labour to the production of home goods rather than to the production of foreign goods?—(*Sir Roland Nugent*): There is nothing inherently wrong in it. Home trade is always better than foreign trade if you can do it, strictly speaking. On the other hand, we might want to think a good deal if we were asked whether we approved of measures deliberately designed to stimulate the home trade artificially. You do not do foreign trade because you are particularly in love with the foreigner; you do it because you cannot find enough to do at home.

3141. Would it not be possible to say that in the course of a generation one should have a new equilibrium without any specific monetary policy devoted to that end, in which you found that imports were falling off and exports going down?—That might happen in a perfectly fluid world.

3142. I only asked that question because I thought that in your opinion the industrial and economic fate of the country depended upon trying to obtain something like the pre-War volume of exports?—No. (*Mr. Glenday*): No. The only point I made on that was that the prospect of finding compound interest markets in this country was not particularly hopeful.

3143. What is a compound interest market?—Taking what happened in the second half of the last century in countries like South America, rich in raw material resources and food producing areas, we sent emigrants over there, provided them with railways and certain other essential equipment. From these small beginnings grew up new centres which provided us with ever-expanding markets on the snowball principle. This may be contrasted with the market in this country, where, in the absence of any major invention, the tendency is that once you have increased the efficiency of your workmen as far as current labour saving devices will permit, further progress is determined by the slow natural increase of the population and growth in the national wealth.

3144. *Mr. Keynes*: May I put my question in another way? Supposing we have 1,000,000 men whom we should like to employ, and the fruits of their labour, together with that of the plant they utilise, would be worth about £200,000,000; one has to consider what sort of goods that £200,000,000 is going to represent. It would partly represent exports to swell our foreign investment; it might represent goods which we now take from abroad, which would also swell our foreign investment. It might be that the men previously unemployed would be partly making goods for one another's consumption, or it might be they would be partly employed in making new capital assets for improvements at home. Do you think that if you stabilised prices at the 1929 level—and I will grant you besides a slow upward movement from that point, rather than downward—you could hope to absorb the whole of that £200,000,000 in additional exports plus a certain amount represented by the unemployed making for one another? If the answer is yes, then your solution accounts for the whole of it; if not, only part of it?—I find it very difficult to look at the problem in that way without knowing precisely what it is that these people are going to do. It seems to me when you talk of the export being responsible for the investment you are reversing what actually happens. I feel that you have got to have some sort of long-term investment policy working ahead of you. It is no use putting people in employment making anything you like and thinking you can stop at that stage; you have to have a conscious long-term policy which will lead to the gradual absorption of more and more people and take up those people who are put out of work owing to improvements in technique and economies in other ways.

3145. A long-term investment policy in this country?—Either in this country or overseas.

3146. If it is overseas we cannot be sure that what we lend will be spent on British goods.—At the present time we cannot, but the Federation long ago made a recommendation that during the present disturbed period you should attach conditions to our foreign loans compelling borrowers to buy a proportion of British goods or take British labour.

3147. If we were to lend £10,000,000, say to Australia, you would like to link that up with some provision that British goods should go to Australia to the tune of £10,000,000 that do not go now?—Yes. And, of course, emigrants. Emigration played a very great part in our policy before the War; this meant a transfer of persons with a low standard of living to countries where prospects were better—over 2,000,000 persons left these shores in the five years before the War.

3148. *Professor Gregory*: I think you said in reply to Mr. Keynes that in your view the capital export preceded the movement of goods, rather than the other way round?—Yes.

3149. Would you apply that only to pre-War conditions, or is it, broadly speaking, true to-day?—The pre-War system has broken down now. At the present time you have short-term floating balances affecting the exchanges, and it is no longer safe to assume that an export of capital funds will result in an export of goods. I should not like to say where the money goes.

3150. Even in pre-War days the reason why capital goods followed export was that the price level permitted you to export?—(*Sir Roland Nugent*): There was an alteration in the relative price levels of the two countries.

3151. And if you give foreign countries money to spend there is a presumption that they will spend it?—(*Mr. Glenday*): Yes; but I think there is more in it than that. As I have already suggested in regard to the South American countries, if I understand the position right, the way in which our loans were expended was largely conditioned by the fact that there was a long-term development policy going on.

3152. *Mr. Keynes*: We were building their railways?—(*Sir Roland Nugent*): And developing the country generally.

3153. Have you any hope of repeating that under modern conditions?—(*Mr. Glenday*): I should prefer to accept the view of Mr. Brand on that, and of other people who have detailed knowledge of development overseas.

3154. *Mr Brand*: Take the International General Electric Company; they have a policy of buying up many foreign electrical businesses, and in fact they have been buying up some English ones. They have been doing what we did in the nineteenth century?—Yes; though I am not familiar with the details.

3155. *Mr. Keynes*: It is your policy to abandon the old pre-War *laissez-faire* attitude; you would have a linking up of investments and foreign trade?—Yes.

3156. *Mr. Brand*: Would you say that that policy is dependent on the co-operation of the prosperous big firms in this country that form the basis of big development with the small non-prosperous firms which cannot expect to form a basis for such development?—Under post-War conditions it would, I think, be difficult for small units.

3157. Is it your view that there was much greater co-operation between Central Banks before the War?—(*Sir Roland Nugent*): I cannot speak with personal knowledge.

3158. Do you mean that London was so pre-eminent that it could make the system work without much co-operation?—That would be our view. (*Mr. Glenday*): The whole system that we call international trade was originated by this country, the "national" systems of other countries were only, as it were, joined on to it. Putting it roughly, their banking systems—for example, let us say the German banking system—was only tacked on to this system in order to participate in international trade.

3159. Other countries had to follow when our Bank Rate went down; you would not say there was a freer gold market in France and Germany before the War than exists now?—No. It was part of my answer to Professor Gregory that I regarded the international system as really the British system.

3160. First of all, I suppose co-operation between Central Banks may certainly economise the use of gold, but it cannot affect the amount of gold produced and, therefore, you may get falling prices whatever the co-operation?—Provided you stick to your present reserve proportion and gold distribution.

3161. And then, even if you get co-operation of the Central Banks—take the situation at the moment—you have to persuade the French investor and the American investor to invest freely in international securities?—Here, again, I am faced with the difficulty of attempting comparisons with the pre-War system. So far as America is concerned she has got (owing to her excessive share of the gold supply) a share of world bank credit which properly belongs to us and which would, under normal conditions, have been distributed by us among the new countries overseas. America has not had either the machinery for foreign investment finance or the requisite knowledge of conditions in those countries until recently. As a consequence she has been wasting her surplus of bank credit upon speculation on the Stock Exchange, or using it to push up the standard of living of her people beyond what they can support out of their actual earnings, instead of the money being used over here in helping us to rebuild something approximating to the pre-War international system. (*Mr. Brand*): But to the extent that she has favourable balances, she must either take gold or lend it abroad.

3162. *Professor Gregory*: I do not quite follow what you think the attitude of the United States should be. In the whole of your Memorandum you are a little critical of American monetary policy. It is extremely desirable that we should know what are the dangers and difficulties of that policy. Are you objecting to the high reserve ratio of the Federal Reserve?—I would put it this way, that after the War a very large proportion of the world's gold supply went to America, and it was very much in excess of her actual needs. That is one part of the picture.

3163. May I interrupt you there? You do not say that was the fault of the United States?—No; I am not blaming the United States for that. We are not blaming anybody; it is part of the breakdown of the system.

3164. *Mr. Brand*: Would you blame them for not having much cheaper money?—I would put it this way. The operation of the pre-War gold standard depended on the creation and development of long-term investment channels. Soon after the War America tried to develop similar channels by investing in Europe, and I understand that she lost very heavily.

3165. *Professor Gregory*: But in 1927 there was a definite attempt to adjust American money rates so as to bring about the flow of capital and gold to Europe?—Yes, but they gave it up very quickly.

3166. *Sir Thomas Allen*: Have you any views upon the effect of capital investment abroad to-day on British industry? Is it harmful, do you think, or helpful? Is the return of interest on that investment beneficial to the country in view of the trade which results?—I should have said that the burden of our Memorandum was that there had not been enough capital invested abroad.

3167. *Professor Gregory*: May we go back to American banking policy for the last few years? In 1927 the Federal Reserve System was rather straining its powers, if anything, to encourage capital exports. Would you say the check to capital exports in 1928-29 was the result of a deliberate policy adopted by the Federal Reserve System?—Well, the suggestion of deliberate policy is rather difficult to deal with because it seems to me that many of these things happen, as it were, automatically. You prescribe the conditions, then you wait a bit and see what happens. For example, at the present time we are reducing our money rates; but it does not follow that you will immediately get a revival of trade; you may have to wait a long time.

3168. That is due to an unfortunate time lag that may arise from the endeavour of business men to accommodate themselves to the cheaper money rates. That unfortunate time lag may last four or five years. In paragraph 20 of your Memorandum you express yourself rather strongly on certain passages of the Report of 1924. You say: "So far as the U.S.A. is concerned, the Federal Reserve Board as far back as 1923 openly proclaimed its deliberate abandonment of the automatic pre-War international gold standard with its regulation of the volume of credit by gold, and the substitution of a system of credit control designed primarily to promote the 'national' industrial and commercial development of the United States"?—Yes.

3169. That does imply rather a note of censure, does it not?—Well, not exactly; because, from our point of view, we are only contrasting their position with our own. So far as we are concerned, that money, we think, ought to have been over here and used to develop the international system. America, not being used to running an international system and not having the machinery to do it, used that money for her own national development.

3170. Well, if you are speaking of gold, it was sterilised in the vaults of the Federal Reserve System?—But for a very long time she has had a surplus of liquid funds floating about the country which, after going into the Florida land boom and getting distributed in private hands, culminated in the boom on Wall Street.

3171. If one looks at the Federal Reserve chart of the expansion of Federal Reserve credit both in 1927 and 1928, it was, in fact, very considerable, so there does not seem to me any evidence that the Federal Reserve System has acted as a deflationary agency. It has kept prices, on the whole, steadier in the United States than they might otherwise have been?—Yes, we make no suggestion that it has not.

3172. To that extent the Federal Reserve System has not had a bad effect?—That is not a point in which we are particularly interested at this moment. Our point is that certain moneys ought to have been used to re-establish an international system from our point of view, and the fact that those moneys have been used for other purposes in the United States may be very good for the United States, but it does not help us. It has been largely responsible for our difficulties.

3173. In any case, if American prices are stable it is better than that American prices should be falling. To that extent it is a help?—Oh, yes; certainly. (*Sir Roland Nugent*): But it is not so great a help as it would be if American prices had been rising. (*Mr. Glenday*): There have been some indices published which show that the price level has been rising, others that it has been falling, and others, again, that it has been more or less stationary. I have tried to find the true position, but I find a conflict of evidence.

3174. *Mr. Keynes*: The change, if any, has been very slight?—Yes.

3175. *Chairman*: I should like to put one or two questions, not so much on economic theories, but treating you as representatives of industry. What exactly has happened; how is industry actually hit at the present moment?—(*Sir Roland Nugent*): It has not got orders, or it is not getting orders at prices at which it can profitably produce.

3176. You cannot compete; is that it?—Partly. It is difficult to answer in general terms. In particular cases, and in a good many cases there is no doubt that while there is an order going somebody else can do it cheaper.

3177. *Mr. Brand*: Somebody in another country?—Yes. At the same time there is not the volume of orders. We know that in the coal trade. There is not enough demand for coal in the whole world. It is the same to a very large extent in the steel trade.

3178. *Chairman*: The volume of orders available for industry has diminished?—Yes.

3179. And for those that are available the terms are not such as to enable you to accept them and make a profit. I want to get it in terms of industry at the moment in plain form?—I would say that much the more important cause is that the volume of orders available for the whole world is not enough. In other words, the whole trade of the world is not expanding as it should; consequently, that means an intensive competition for what orders there are, and in that intensive competition, not in all trades but in some, our costs are tending to be too high.

3180. *Mr. Brand*: Why are our costs tending to be too high?—Largely I should say because our costs were automatically raised by the return to the gold standard, and the general machinery of industry has not been sufficiently powerful to force those costs down, whether they are wage costs or other costs.

3181. *Chairman*: Then it is a question of the costs of production in this country being too high?—To some extent, but I would say very largely too high not through the fault of industry itself.

3182. First of all, one of the contributory causes of the comparatively high cost of production here, in your view, is the time and method of the return to the gold standard—the jolt then given to industry?—Yes.

3183. I rather gathered that that 10 per cent. had been to some extent taken up in the years that have intervened since 1925?—It has certainly been taken up to some extent, but it is extraordinarily difficult to say how much. In some trades is seems to have been taken up completely, and in those trades you would find that British firms can compete successfully.

3184. *Mr. Bevin*: Would you agree that prior to the 1924 jump, or jolt as it is now described, the various industries, through their negotiating machinery for wage alterations and the introduction of payment by results, had tightened up to meet the position as it was then, as far as they humanly could?—I think, broadly speaking, that would be correct. We had in my opinion very, very nearly got readjustment.

3185. And, therefore, when this 10 per cent. was put on, industry was given a task that it ought to have been given at least another five years to do?—Yes. I do not think I would dissent from that.

3186. That is for new machinery and new changes?—The whole thing, increase of efficiency, rationalisation, if you like to use the word—the whole bag of tricks.

3187. Legitimately, with industrial relations on the most perfect footing, it would have taken us five years to stand another 10 per cent. even if industry had been running fairly well?—I should say so. Of course, against that you might have had a world rise in prices, which would have made your task much less difficult.

3188. *Professor Gregory*: Has the Federation of British Industries considered the question of devaluing the currency?—I think at the time Lord Bradbury's Committee was sitting there was a discussion at our own Committee, but if I recollect rightly we communicated with the Treasury and we were told that that was one of the things that was already ruled out of consideration.

3189. *Chairman*: I would like to follow up the 1925 consequences, in justice to the step then taken. I gather from you that if all the other countries had played the game we should not have had the jolt?—We should not have had anything like the jolt; and if you had had a rise in world prices following our return to gold, it would have "cushioned" the jolt still further.

3190. And the anticipation at that time was that that would result?—I think it was the view generally held in this country at the time that the international price level would rise.

3191. So it is apparently due to disappointment of what was to happen, or what was likely to happen at that time?—I think that would be a fair way to put it.

3192. If what had been anticipated had been realised probably we would not have had the disaster so soon?—No. Of course, one comes at this point to the difficulty as to whether what we did was not one of the causes of the expected rise in world prices failing to materialise.

3193. *Mr. Bevin*: May I interpose? Assuming you had had a rise of prices and assuming that the jolt had not been so hard, do you think that the fact that you had returned to the pre-War parity would have made the cycle shorter, or that for at least another 10 or 15 years, let us say, the cycle of depression would not have recurred?—I think that is beyond my knowledge. I could not really say.

3194. You have not looked at that in relation to the fact that the agricultural areas of the world have been so largely stagnating as a result of the War—Canada, Russia, and so on?—It is difficult to say. Of course, you still had a very badly shaken up world then, and it might be that even if world prices had risen we should have gone through a baddish time. It could not have been as bad a time as we have actually had.

3195. *Chairman*: Taking the situation as we find it with its disadvantages, I gather from you that to some extent, at any rate, the consequences of 1925 have been taken up?—Well, they must have been takn up to some extent. It is very difficult to say how much.

3196. Is that by increased efficiency?—Entirely, as far as they have been taken up. (*Mr. Glenday*): I must add with regard to that it is a rather difficult point, this point of increased efficiency, because in every industry you have an enormous range of efficiency, and it is quite possible you may in a sense increase your average efficiency by putting certain firms out of employment. That is, of course, one way in which it works.

3197. *Mr. Bevin*: Is not the cost of this increased efficiency now being borne by industry through the present method of raising money for the unemployed, so that in fact the increased efficiency is not showing the same result that it normally would? For instance, the fact that when you had increased efficiency before the War with the ordinary normal market—take the skilled trades at any rate, engineers, boilermakers and all the rest of them—their range of unemployment was never anything more than 3 per cent. to 6 per cent. at the most?—Yes.

3198. The fact that you have been obtaining increased efficiency, rationalisation, at this moment, has put up their range of unemployment to 20 per cent.?—Yes.

3199. Therefore, is not the fact that you are trying to pay for that unemployment by contributions from the workmen and employers nullifying to some extent the effect of decreased costs at the other end?—(*Sir Roland Nugent*): To some extent.

3200. If you want to get the full benefit of increased efficiency in the cost of production it is necessary, is it not, to transfer the whole cost of unemployment insurance to income tax or some form of tax which comes out of profits?—(*Mr. Glenday*): That does not seem to bring it any nearer. (*Sir Roland Nugent*): It is on the whole community, even if it is not on the individual firm.

3201. Then, de-rating does not help you?—Only indirectly. It helps you to this extent. You are taking a direct charge on the individual firm and making it an indirect charge through placing it on the community. To that extent the industrialist is benefiting.

3202. *Mr. Frater Taylor*: Surely Mr. Bevin's suggestion would meet you in regard to exports since it would reduce costs? (*Mr. Bevin*): I do not know that it is a suggestion. I am trying to analyse the matter.—Derating, to take a concrete example, removes something which comes directly on your cost and puts it as a charge on the whole community, some of which comes back to you.

3203. *Chairman*: It is a re-distribution of the burden?—Yes, you are shifting the point of impact of the burden.

3204. A sum has to be raised somehow or other for the purpose of providing for local government. If it is not raised from industry by valuation of industrial assets it has to be raised from some other source, but the country has still to pay?—Yes.

3205. On the other hand, inasmuch as industry has to produce money for all classes in the country it might be worth while lightening the burden on industry in order ultimately to make things better for everybody?—Yes.

3206. *Mr. Bevin*: Do you mean this; that at present the cost of the unemployment which is caused by endeavouring to get increased efficiency falls, as the result of that particular form of taxation, directly on the producing trades?—Yes.

3207. And, therefore, it is not borne equally over the whole community, is it?—No.

3208. *Sir Walter Raine*: Could you tell us how far you think the raising of foreign tariffs is responsible for the present situation in comparison with 1924 and 1925?—It is scarcely attributable to it. Since 1925 I do not suppose the difference is very big but since pre-War I think you have two factors: first of all, that the average tariff country is far more expert in applying its tariffs than it used to be. Their technical efficiency in applying a tariff is infinitely more than it was pre-War. Then again you have the fact that instead of their finance being free trade, it is now in most countries national, so the financial and tariff weapons back each other up instead of mitigating each other. Compared with pre-War I think there is no doubt that the tariffs, plus the financial policies in other countries, are very seriously impeding our trade.

3209. Do you think that tariffs were even more responsible than the changes in the international money market?—It is very difficult to say. I should say not myself. It is very much a matter of opinion. I personally should say the change in the international money market is the bigger influence of the two. That would not, probably, be the opinion held by the bulk of the Federation's members, however.

3210. I am not asking the question from any political standpoint.—I should think the ordinary industrialist who is trying to get his goods abroad would put the weight on the tariffs, which are the immediate and obvious difficulty he encounters. I am only expressing a personal opinion when I say that I think the less superficially obvious influence of "national" monetary policies has actually been the more serious obstacle.

3211. *Professor Gregory*: The rise in the *ad valorem* equivalent of post-War tariffs is rather less than people think?—I suppose in one way or other I have seen as much of tariffs as most men since the War, and it strikes me that it is not that foreign countries have so seriously raised their tariffs, as that they have made their tariffs so much more effective; they have very much more elaborate schedules, very careful adjustment of their Treaties so that a concession given to one country only gets to that country and is not passed on by that country to other nations, and so on.

3212. I suppose you would agree that there is this justification for the view of the ordinary business man, that the fall in prices has, in fact, accentuated the difficulties?—Of course it has.

3213. *Chairman*: It is also an important point that tariffs are not now clumsily applied but discriminatingly applied?—They are really beautiful instruments. Take the French tariff and treaty system. It is a pure intellectual pleasure to watch them manipulate it. It is an extremely fine art.

3214. An art which we do not appreciate?—Unfortunately not.

3215. Of course, if you have an artistic system of tariffs to surmount to get your goods into foreign markets, one of the methods of surmounting the barrier is a lower cost of production?—Yes, but, of course, if the other people mean to keep you out they very soon adjust their tariffs and they get you down to the point where flesh and blood will not stand it.

3216. *Mr. Keynes*: Does not that make you a little sceptical about the chances of recovering the pre-War ratio of exports to imports?—Yes. My own feelings have always been that, whilst we should have, I hope, a very substantial and important volume of export trade, 20 years' hence we should find the home market relatively more important than it was in 1914. That, I am afraid, we have got to face.

3217. *Professor Gregory*: If you could get over the difficulty of costs, the world is such an enormous place compared with Great Britain that you could still hope to spread your exports over a bigger area?—One might have something similar to what was accomplished by the D'Abernon Mission to the Argentine, a deliberate bargain with a foreign market to give you such and such benefit if you will take a definite quantity of their goods. Probably one would find development of that kind profitable.

3218. *Chairman*: Large scale commercial travelling?—Yes, large scale commercial travelling, plus what amounts to higher commercial diplomacy, a certain amount of bargaining.

3219. *Professor Gregory*: Supposing one could rely with certainty on prices falling no lower than the 1929 level; supposing also one could reckon on the continuance of increased efficiency gradually bringing down costs; how would you accept the suggestion that instead of imposing, say, safeguarding duties, or developing capital works at home, those industries which could prove a case should get a subsidy on exports?—The Federation has not considered that. I do not personally think it is practical politics. Obviously there would be very serious difficulties.

3220. Before the War there were no such things as Trade Facilities Guarantees?—I hope there will not be again.

3221. One has to consider what has to be done One hears about Protection having to come in course of time. Supposing it were put to you that the political and economic difficulties connected with such a thing were less bad than any conceivable alternative, do you think there is anything in subsidies as such to help you out?—I cannot, somehow, see subsidies working except on a very small scale. That is my difficulty. Theoretically, I agree, a subsidy is quite feasible. (*Mr. Glenday*): Behind all this you have got the general international position to which we have referred. Such questions as increasing tariff barriers and reductions of our costs in this country relative to competing countries are bound up with the problem of competing for a "limited" market. Practically the whole reason for the increase of tariffs since the War is the failure to re-establish an "expanding" international market, so that each nation has concentrated on conserving its own home market; so that even if we decrease our costs here they will probably increase their tariffs.

3222. Then if you get your costs down to pre-War level you are no better off?—No.

3223. *Mr. Frater Taylor*: You have to keep your exports, but our own home market must not be neglected?—No.

3224. *Chairman*: You suggest that foreign tariffs must always be so adjusted as to keep us out; consequently, no effort on our part will help us to surmount that?—(*Sir Roland Nugent*): You have a large number of countries which have revenue tariffs; the bulk of the South American countries, for instance, have tariffs, but they are not in the main scientific protective tariffs; they are more in the nature of revenue tariffs. It is only in the industrialised countries that you have this extremely scientific type of tariff that keeps you out, and even that does not keep out those goods which they do not make. The German tariff, for instance, does not keep out English yarn.

3225. Would you not get larger quantities of exports if the cost of production were lower?—Yes, you probably would. I may be absolutely wrong, but I am inclined to think that the real trouble is that there is not an expanding volume of trade in the world, and I doubt very much whether you would expand that volume very substantially by a drop in price. We have not got that urge of prosperity throughout the world that makes people go on buying things.

3226. *Professor Gregory*: If one accepts that as true, there is no way out of the difficulty?—(*Mr. Glenday*): Excuse me, there is. The practical answer at the present time is to form an international agreement in the particular trades concerned to prevent prices falling further.

3227. *Chairman*: This does not seem to me to affect the tariff position?—(*Sir Roland Nugent*): You have driven your bargain, but that, I think, is only possible in a certain number of trades.

3228. *Mr. Brand*: Take the electrical industry. You might divide up your trade by quota, as the Germans and Americans have done; they now have agreements for dividing up the world?—(*Mr. Glenday*): Yes, and that movement is growing in a number of industries. (*Sir Roland Nugent*): In some industries, however, it may never be practicable.

3229. *Sir Walter Raine*: Do you not think that, owing to the serious effects of these tariffs, we as a country may have to adopt Protection temporarily for the sake of getting back ultimately to Free Trade?—Well, we have implied in the evidence that if you do not get the world system going again—and tariffs are one of the enemies of the world system—you cannot go on being international by yourself, therefore you are driven to a national policy. Whether a tariff is an essential part of a national policy, I cannot say.

3230. With regard to getting costs down, of course under ordinary circumstances we would expect to do that by more trade abroad, but, as you say, the foreigner would put his tariffs up and prevent the flow of those extra goods?—Perhaps I was wrong there. My mind was rather at the moment on the high tariff countries. If you got your prices down you would probably sell more in what I have called the revenue tariff countries, except in so far as your competitor got his prices down lower and competed successfully with you.

3231. I was thinking of the total volume of export trade; I was not thinking of any particular country?—I think if you got prices down you would increase the general volume. The trouble is, however, that we are all competing for a limited market; whenever there is an order going, the tendency is for all of us, British, French, German and the rest, to put our heads down and rush for that order, and very often whoever takes it gets it at an unprofitable price. The trouble is that the market is not expanding as it should, and would, if we had a satisfactory structure for international trade.

3232. *Mr. Brand*: Take the Electrical Trade—and there are many others—the Americans often cannot compete with us; their costs are so much higher; and the French, the Germans—more particularly the Germans and the Belgians, cut our costs. (*Chairman*): I should have thought that in that rush of competition the man who got in the first blow would get the order?—He does, and very often at a price which means a loss.

3233. *Mr. Tulloch*: You made the remark that if we cannot get an international system we may be driven to a national system, and we may get to Protection. What do you mean by a national system? What does it imply?—It implies, first of all, I think, an entirely different way of looking at things. We hardly realise in this country how extraordinarily internationally minded we are in comparison with other countries. It means adopting very much more the point of view that a German or Frenchman takes, a much more definite concentration on our immediate national advantage. The sort of things one thinks of are a conscious direction of investment towards those countries which offer us a favourable market and favourable treatment, and away from the countries which do not offer us such good opportunities. That is a crude way of putting it. The exact way of doing it would have to be very carefully thought out. You might, for instance, consider doing it by the French system of taxing foreign investment more highly than home investment, and then by putting countries which treated you well on your "home" list for investment taxation. You would obviously also have to pay attention to your home market, and it might be necessary, possibly, for the next four or five years, which would probably be difficult years, to have a conscious stimulation of the home market, setting in motion jobs which were not in themselves good enough propositions to attract capital in present circumstances, but which would be useful things to do in themselves and which would help to get the wheels moving. I think also that once you became definitely national in a tariff world you would probably also have to have some sort of tariff, if it were only for the purpose of bargaining and filling up the gaps.

3234. What you say amounts to this, that if we cannot get the international system going we have to stimulate national trade?—Yes. I think you could probably also drive favourable bargains in regard to supply of goods and capital with South America and similar countries.

3235. You mean "most favoured nation" treaty clauses—Protection perhaps. (*Mr. Keynes*): Or do you mean investment policy?—I think you would probably find you would have to come to a certain measure of Protection as well, if it were only for the purpose of filling up the gaps that your other policy did not cover; but it is not to my mind an absolutely essential element in a national policy.

3236. *Chairman*: You mean to say that this country is to an exceptional degree international in its outlook, and it might be necessary for us to become more national. But would not the change over to the national policy possibly be detrimental to our country from other aspects?—I think quite possibly.

3237. Have we not benefited enormously from that international spirit?—I think so. That is why one only thinks of the national solution very much as ones second string. I think one has rather got to this point, that one is beginning to feel that if something does not happen to get us back to the proper flow of international trade we shall find ourselves absolutely forced into the other.

3238. That means a complete shrinkage of the whole outlook?—It does. I do not say I am personally in favour of it. But unless something happens fairly soon, unless some definite improvement comes, I think we shall find ourselves forced to it. I think you are seeing the beginning of a psychological change, an alteration of the national point of view on these questions even now as a result of the strain we have been under.

3239. As a country, could we live unto ourselves alone independent of other countries?—It would be very difficult, because the whole structure of our economic life has been built up on the basis of international trade.

3240. We are not self-supporting?—No; but I think it would be possible so to arrange our relations with the other parts of the world, as to secure sufficient raw material and food even under a national policy.

3241. *Mr. Tulloch*: You attach considerable importance in your memorandum to the credit policy of this country; you regard the Bank of England as holding a predominating position in that relationship?—Yes.

3242. Do you consider that the Bank of England might have done more in the last four or five years than it has done in relation to our trade?—No. I think our view would be that the step that was taken in 1925 rather put the Bank of England in a position in which its freedom of movement was definitely restricted, it could only do certain things, and I should have said, as far as our knowledge goes, which is not very great—this is getting on to technical banking and similar matters on which an industrialist can hardly judge—we regard the Bank of England as having put up a very fine fight against impossible circumstances.

3243. I am glad to hear you say that. Do you consider that trade in this country is suffering from want of credit? Do you think that part of our evils is traceable to the fact that there is insufficient money for industry?—Do you mean at this moment?

3244. Last year?—You will correct me there, Mr. Glenday; it is much more in your province: I should have thought that at the beginning of last year things were getting strained; supposing the improvement of trade in the early part of last year had gone on we should soon have been short of credit; it looked as if the joint stock banks had gone as far as they could.

3245. Supposing the joint stock banks were in a position to afford considerable further credit to industry, would that in your view afford practical help to industry at the present time? It is claimed that the banks are not affording sufficient credit to industry, and that that is one of the causes of our troubles. (*Chairman*): Let us link that up with what you say categorically in paragraph **26**: "The influence of a restriction in the money supply, on the other hand, is *general*; changes in the volume or rate of flow of money can exercise a potent influence both on the *direction* and *degree of expansion* of every branch of industry and commerce." I should have inferred, Mr. Tulloch, that in the view of these gentlemen restriction in the money supply was one of the causes preventing the expansion of industry. (*Mr. Tulloch*): That is what I want to address myself to. I should like that expanded?—(*Mr. Glenday*): I should put it this way, that the quota of credit that you have in a country operates as a "revolving" credit; that is to say, the amount of trade it can move in a year depends on the number of times it revolves in that year. Now, if the volume of your credit quota it limited and also its velocity, there is imposed a limit on the volume of trade that you can do at a given level of prices, unless you can make it revolve faster; and it is one of the conditions that when the volume of your credit is limited there is both a tendency for its price to rise and for its velocity to slow down.

3246. *Chairman*: I can imagine that increased credit is necessary for the prosperity of trade, but which comes first—do you create new trade by expanding credit facilities in advance or do you first of all have a revival of trade and then find that with that revival of trade you want more money? If there were a restriction at that stage, I could understand how it would restrict the revival, but I do not see how the abstract creation of additional credit would cause industry to expand unless the demand were expanding. A mere artificial increase in credit does not seem to me to do anything at all unless there is a real demand for the goods?—I would say in practice that the first step is that the bank provides you with the credit and lowers its price until you use it.

3247. *Mr. Frater Taylor*: Should not credit be divided into two sections in reality—one, banks' accommodation, and the other investment—and is it not lack of investment that industries are suffering from most?—(*Mr. Glenday*): I would agree with that, except that before savings become investment they have to go through the form of bank credit. You start off by saving a certain sum of money; that money has then to find its way into investment: if there are no suitable investment channels that money will go to where it can get the highest money interest. That may not result in new investment—by investment I mean the actual laying down of plant and new buildings—therefore, as far as investment is concerned, the savings may be lost. I am informed —I cannot substantiate the figures—that before the War something like 30 per cent. of our savings went into mortgages such as Building Societies and Insurance Societies, and I am told it is roughly estimated that now something like 70 per cent. goes into Building Societies and Insurance Societies. Well, that does not mean an increase in the new plant being laid down or new markets being developed. It may merely be offsetting past business losses. (*Mr. Frater Taylor*): One witness told us that to restore the South Wales steel industry would require about £20,000,000. That, of course has a profound bearing on costs, the problem we are dealing with.

3248. *Mr. Tulloch*: I was concerned rather with bank credit. Supposing unlimited bank credit were placed at the disposal of industry to-day, would that make any difference in relation to unemployment?—I should reply that in the past——

3249. No; to-day. (*Mr. Keynes*): At what price do you mean? (*Mr. Tulloch*): Well, would the price make any difference? Let us suppose that industry could borrow all it wants at 3 per cent.: could you say what difference, if any, it would make to industry? Could it use the credit?—I can give you a parallel taken from past experience. We seem to be very much in the same position as we were in the period 1893-96, when you had to wait for two years with a Bank Rate at 2 per cent. before trade revived; one explanation of that time lag that I should give is that in those days we had also been through a period when world conditions had compelled us to attempt to develop on "national" lines so that our trade had to wait some time in order to allow international markets to be built up again and monetary conditions organised to encourage a flow of savings to those international markets. You have to build your investment markets ahead. It was no mere accident that things went so smoothly before the War; it was rather due to the marvellous working of the international financial machine which converted the discontinuous operations of savings and investments into a smoothly flowing arrangement so that you had your investment waiting for the savings; the investment channel itself being in turn prepared by utilising bank credit for temporary loans, and this actually created the demand for the goods which were ultimately covered by the savings.

3250. *Mr. Tulloch*: What you mean is that the process of recovery through extended bank credit, if available, would be a slow one?—It might be.

3251. With the difficulty of the international situation it would probably be a very slow one, would it not?—You have asked me a very complicated question, because we are suffering from two things, one an underlying condition which has been with us since the War, and the other a trade cycle movement. The rate of emergence from the trade cycle, I should say, will be largely dependent on what happens in America; if America recovers fairly quickly I think it is possible that, if our present international exchange position is maintained, we might get a fairly rapid revival of industry.

3252. You see a similarity between the existing depression and trade cycle movement that we are suffering from and the previous depression and trade cycle movement, but you say this is a rather exceptional type?—Yes.

3253. We do not see the end of it?—(*Sir Ronald Nugent*): I think the rest of the world has been having a trade cycle boom since about 1924. We "missed the bus" then and now we are getting the trade cycle depression on top of our self-induced depression. That is the reason. (*Mr. Glenday*): To which I should add that the money which ought to have been used for opening up new markets for world trade with our savings has been squandered on the American Stock Exchange.

3254. *Professor Gregory*: Why do you say "squandered on the American Stock Exchange"? It has been put into capital developments?—(*Sir Roland Nugent*): Public utilities must have been terrifically overloaded.

3255. You mean savings have been spilt on the way?—(*Mr. Glenday*): I put it this way, that the amount of trade a given amount of money can do depends on the number of times it is turned over in the year. If instead of using that money to move goods you turn it over by transfer from one sort of existing Stock Exchange security to another you are wasting the money—as no new capital plant results.

3256. *Mr. Keynes*: If Bank Rate here came down to 3 per cent. and the Bank Rates of the rest of the world also fell and that state of affairs continued for a year, would you not expect it to work wonders?—I think so. That is my personal view. It would also depend on how quickly America would revive. It seems to me that you still have to face the problem of finding new markets, and you may find that America will continue with a depression of trade because she may not be able to provide that situation.

3257. You mean that America should make foreign loans and those foreign loans should be used for buying goods from us?—Yes. (*Sir Roland Nugent*): I think if we got low money rates and plentiful credit for six months or a year we should see a substantial improvement. If those rates were so adjusted that we got a redistribution of gold, we should be even better off, as we should then have a firm foundation to start from.

3258. *Chairman*: Would you say that the present depression is due to any extent to the action of the Bank of England in restricting credit?—(*Mr. Glenday*): There again it is a complicated question, because the force behind the movement has undoubtedly been the raising of money rates in America, this raising of rates in America has compelled the raising of rates all over the world; but I think that probably the final blow was the raising of our Bank Rate towards the end of last year.

3259. If you are looking for the culprit, the first serious cause was the time and method of our return to the gold standard with the corresponding 10 per cent. difficulty, and that is not a matter for which the banks were responsible?—(*Sir Roland Nugent*): I think our view is this, that the reason why this country has had a bad time, a worse time than other people for the last five years, is the time and method of our return to gold; but now you have a thing apart from that, you have an ordinary trade cycle depression. So you have the cumulative effect of a trade cycle depression upon industry which has been depressed for a long time while for the last five years other people have been having a boom.

3260. Neither the step taken in 1925 nor the condition of maladjustment is attributable to the banks in this country?—No.

3261. In actual practice, have industries wished to embark on enterprises from which they have had to refrain through lack of credit?—That comes within the second part of our evidence. We came across no evidence of anybody not having credit from the bank when they ought to have had it. We did have evidence the other way, that the banks had been rather over-generous.

3262. That does not end the question. It may be perfectly true that the banks, subject to the method of working of banking in this country, have done all they should; but certain other methods, certain new credit systems may require to be devised to meet the difficulty. The present regime may not be to blame, but it may be necessary to invent something new?—It was on the question of new machinery that the Council required further time——

3263. I will not pursue that question now. With regard to investment abroad, which is one of the subjects we are dealing with here, is it the view of your Federation that there is over-investment abroad at present?—No. I should say, so far as we have a view, it is almost that there is under-investment.

3264. *Mr. Keynes*: You are meaning over-lending and the witness is meaning under-investment. We are not having a sufficient favourable balance of trade, that is what you mean?—Yes, I suppose that is what we mean.

3265. There is not enough to provide for our lending?—There is too little, I should say, at the moment.

3266. *Mr. Bevin*: Too little lending abroad?—Abroad, yes.

3267. *Mr. Brand*: Our resources to lend abroad are too small?—Yes; that is the better way of putting it.

3268. *Chairman*: Is it in your view beneficial that we in this country should invest abroad?—I should say certainly.

3269. In what way is it beneficial?—Because it draws export. If you give the foreigner money he has got to buy goods.

3270. *Mr. Keynes*: What about his taking gold?—Short of taking gold. (*Mr. Glenday*): Then it works through the price level.

3271. *Mr. Brand*: Then our price level may not respond?—At the present time. (*Sir Roland Nugent*): I am speaking of it as a general proposition.

3272. *Mr. Bevin*: What about this moment?—I should say at this moment we are probably not lending enough abroad, and probably Mr. Brand is right that we are not lending enough abroad because our resources are not sufficient to permit it.

3273. *Chairman*: Is lending abroad calculated to improve our export situation normally?—(*Mr. Glenday*): Not at the present time, because the monetary system is not working properly; it is not working as it did before the War.

3274. *Mr. Lubbock*: May I ask one or two questions with regard to the Memorandum that Sir Roland has put before us? I see you say in paragraph **14**, "That from the point of view of British industry and commerce the essential pre-requisite of a proper functioning of the gold standard is that it should be international both in its scope and operation." Then you say in paragraph **28**, "A permanent cure will not be possible unless international financial arrangements are set up to replace the system destroyed by the War. It is precisely this which the financial authorities of the world have failed to achieve." We only went back to the gold standard less than five years ago, and since that time various other countries have struggled back to it. France only got back to it less than two years ago?—(*Sir Roland Nugent*): Yes.

3275. And France has not done very much towards carrying out the intention which the Bank of France clearly expressed, that they wished to become an international lending market?—Yes.

3276. Do you despair of anything being done? You talk here of lip service to the underlying principle of Genoa, but do you not think that a great deal has been done and is being done to get back to the old financial system?—It is very much a matter of opinion. Of course, we have no "inside" information, but the impression one gathers is that, if anything, we are further off an international system than we were two or three years ago.

3277. Do you not think that communication between Central Banks, and co-operation between Central Banks, is much greater than it was? I quite agree that no spectacular Conference, such as was foreshadowed at Genoa, has taken place, but surely Central Banks are in closer touch?—I have no actual knowledge; these things are shrouded in mystery; we judge by results and one would judge by the results that they must be in much less close contact with each other than they were four or five years ago.

3278. *Mr. Bevin*: Do you think that if there had been a spectacular Conference and definite agreement, that might have restored confidence?—It might have restored confidence generally, but, of course, you can only say it would have been useful if you know the individual men who would have been at the Conference and, apart from one or two, I have never met them. If it could have been done with a good spirit and everybody meaning what they said, it would have produced a good result.

3279. *Mr. Lubbock*: You said just now that the personalities concerned must know each other first and the ground must be very well prepared?—Yes.

3280. I think it is fairly common knowledge that a great deal of that sort of thing has been done, and that Governors of Central Banks have met each other in the last four years probably more than they did before. Do you not think that the establishment of the Bank of International Settlement gives cause for a great deal of hope?—One would put a great deal of hope in the Bank of International Settlement; at the very least it will provide the occasion for regular meetings between important people connected with the various Central Banks, and possibly even between their Chairmen.

3281. I should think myself that the Governor would make a definite point of that. Although it has not been publicly announced, there have been a great many meetings in the last three years. Of course, one of the obstacles is the gold importations by France, which only returned to the gold standard two or three years ago. Do you not think that the task of restoring the old system has been very much affected by the difficulties over reparations?—I should think these big international payments must have increased the difficulties.

3282. There have been these special obstacles. Nevertheless, there have been efforts to produce co-operation between the Central Banks. Would you say it was worth while trying to get that co-operation?—I should say it was very well worth trying. We meant the whole essence of this Memorandum to be, "for goodness' sake do try," but we also thought, purely from the national and industrial point of view, that we cannot stand the strain of waiting in present circumstances indefinitely; it must be done quickly; we must see some fruits.

3283. We are entering upon a period of cheap money which we hope will mean some difference. When you say there has been no co-operation, would you not regard the general reduction of Bank Rates in the last few months throughout the world as some indication of a common policy?—I think that it was so obviously the right thing to do in the purely "national" interest in each country that one could not take it as being necessarily an indication of conscious co-operation.

3284. Then, of course, another difficulty was the boom on the American Stock Exchange?—Yes.

3285. It would be very hard for us to stand up against such a disturbing factor as that, whatever system we had, I suppose?—I agree. But, of course, we regard the boom on the American Stock Exchange as one of the results of our not having got the pre-War system going again. We do not believe it could have happened to the same extent and in the same way if we had not got this extraordinary maladjustment.

3286. Even though a year or two previously it was said it was due to co-operation between the Central Banks of the world?—I am talking with no knowledge of what happened, but one would say that during that particular period—what was it, six months or a year? (*Mr. Glenday*): Much less than that. (*Sir Roland Nugent*): Entirely from the outside one saw during that brief period some indication that the Federal Reserve Board and the Bank of England were in close touch.

3287. It is not always easy to frame a policy which produces exact results even if one is in close co-operation. I think what one would wish if possible would be to restore the gold standard on the old basis and restore Free Trade. I do not wish to raise the Tariff Reform question. I was wondering how far your Memorandum led up to the conclusion that the time has come when all hope must be abandoned?—No, it was intended to lead up to this, that it is time for a very determined effort to get the old system going and, if that determined effort fails, then reluctantly we have got to think of other things. You must remember, I am speaking only from recollection of some rather general discussions at my own Committee, which did not reach a conclusion, but I think that would be a fair summary of the general sense of those discussions to say that my Committee thought the time had come for a last determined effort to get the old system going and, if not, you had to make up your minds for another and less desirable system.

3288. You say in paragraph 6, "It should be added that whilst there was this upward trend in real wage rates in Great Britain, wages on the Continent converted into international values were steadily falling as a consequence of currency depreciation." Is not that tending to readjust itself now? Of course, for the time being that was a tremendous handicap to British trade, but are not wages coming back?—(*Mr. Glenday*): It affects different things in a different manner, but if we are going on deflating our price level here we shall lose the benefit of that readjustment. In the middle of last year it looked in many trades as if adjustment had taken place, but during the last quarter they have again been unable to compete.

3289. *Mr. Brand*: Are their prices falling faster than ours?—Yes. In the iron and steel trade competition has grown considerably. It is very difficult to say how far it is due to forced sales or to differences in cost.

3290. *Mr. Lubbock*: I suppose at the end of the War, the world, having expanded its factories for the purpose of making shells and such like, must have found itself with a capacity for peace production far greater than was necessary?—(*Sir Roland Nugent*): In some trades; particularly, of course, in all engineering and metal working trades.

3291. In shipbuilding, because ships were sunk, and no doubt that affected production?—No doubt. It was certainly very marked in the engineering, iron and steel trades.

3292. How far have we got in reducing that capacity of peace-time requirements?—(*Mr. Glenday*): My reply to that would be that in those trades where you have not got an international arrangement you have still got over-expansion existing.

3293. So the difficulty caused by the over-production of plant has nothing to do with the monetary system?—No; but that is only half the story. Take the iron and steel trade in America. They suffered from the same over-expansion of capacity as we did, but owing to the rapid expansion of the motor industry they have been able to fill the gap in making motor cars. In addition their mass production of motor cars has been made possible by the development of the instalment system. This system has been the result of the creation of a *new* body of purchasing power by the United States banks, which now approximates in volume to the total amount of bank credit available in this country for all purposes.—(*Sir Roland Nugent*): I think you must also remember that some of their trades which were over-expanded during the War are having almost as bad times as ours. Take cotton.

3294. Then, I take it that you, Sir Roland, would wish to see the old gold standard in an improved form readopted internationally?—Yes.

3295. And not absolutely disappear just yet?—That would be my own personal view; and I think that it would be supported by the Committee of the Federation.

3296. You seem to convey in your Memorandum that every effort to restore the old gold standard to working order had failed?—Had hitherto failed.

3297. I do not think anyone would say it was working perfectly at the moment, in spite of all efforts, but one might see places where obstacles had been in the way, and if they were removed it might be made to work?—(*Mr. Glenday*): Our evidence was that co-operation with the United States had in fact broken down.

3298. May I ask what that information is based on?—One cannot, naturally, mention sources, but I may remind you that when they reduced their rate in 1927 with the idea of assisting Europe, there was considerable opposition on the part of the general public in America to anything of that kind having been done, and they blamed that reduction in the re-discount rate for the subsequent Stock Exchange speculation.

3299. Then anything that required to be done would have to be done with greater co-operation and secrecy?—Well, there would have to be co-operation.

3300. When we are speaking of Genoa, perhaps "secret diplomacy" is the phrase?—(*Sir Roland Nugent*): We do not lay down how it should be done, but if it is not done soon the strain will get too much, and then you will get the reaction which you are already beginning to see in this country towards a national policy.

3301. *Mr. Brand*: You say, "The progress towards international financial stability during the past five years has been practically nil." By that you do not mean to infer that practically all international currencies are not working properly?—(*Mr. Glenday*): No.

3302. You mean they are not working on a common system, but the position is better than five years ago?—Certainly.

3303. When you had German and French currencies going to an enormous depreciation?—We mean the establishment of an "international" system.

3304. I suppose it might be said that there are two ways of coming together, either that other countries adjust themselves to us, or that we adjust ourselves to them?—Certainly.

3305. Other countries might ask that we do the adjustment instead of them?—Yes, except that we are primarily responsible for the "international" system; if you got the Bank of International Settlement to occupy the position that the Bank of England held before the War, that might possibly give us what we wanted.

3306. *Professor Gregory*: Of course, you would agree that one can exaggerate the degree of elasticity of pre-War standards. France and Russia and other countries used to bottle up gold, as they are doing now, though perhaps not so much?—But there was a surplus.

3307. I agree, but as far as the mentality of the Presidents of Central Banks on the Continent is concerned, there is not so much difference compared with pre-War?—No.

3308. Do you not think you have been a little bit over-pessimistic in regard to the United States? I should have thought that this was one of the moments when renewal of international co-operation was possible because of the existing state of affairs?—(*Sir Roland Nugent*): The policy that suits us might appeal to them now, because they are going into a slump, in fact, they are in it and going deeper every minute.

3309. *Chairman*: Then the moment is favourable to get co-operation?—"The devil" is sick, there is a chance of doing something with him.

3310. *Mr. Bevin*: Are you satisfied with the methods of raising money for financing industry in Great Britain?—Well, that is rather part of our later evidence. I would prefer to keep it, if I might; not that I cannot answer that particular question, but we might get led into other things which we are not yet prepared to express an opinion upon.

3311. *Mr. Lubbock*: I notice that you deprecate any sort of embargo on foreign investment; in paragraph 6 (5) you say, "Account must also be taken of the embargo on foreign investment which was in operation for a substantial proportion of the period, and which cannot have failed seriously to restrict our export activities."—That, I think, was only an expression of opinion that it had done it. I do not think we said it was unnecessary at the time; I think we said there was no choice at the time, but to put it on; it might be undesirable, but it was forced on us. You might have a position even now as you had then when practically there was no choice but to put an embargo on foreign investment for a time.

3312. But it does restrict exports?—It does restrict our exports, it is bound to.

3313. *Chairman*: Is it feasible to put an embargo on foreign investment? Can it be evaded?—I am speaking without detailed personal knowledge, which no doubt a good many members of this Committee have, but my impression is that the embargo was very effective when it was applied in 1925. (*Mr. Glenday*): In 1925 and at the present time.

3314. *Sir Thomas Allen*: Just one question on the point of salesmanship. I suppose that would come under what you call conscious direction of investment abroad. Will you deal with that next time?—I do not quite follow. Do you mean efficiency of salesmanship?

3315. Yes?—Well, it is a little remote from the financial subject. I could bring some evidence on it if you wish.

3316. I have in mind that fact as affecting the financial policy of the United States, France and ourselves?—I see what you mean. (*Sir Roland Nugent*): Of course, a good many of our answers in the course of this general discussion have been our own opinions. I have tried to indicate when I was only expressing my own opinion. A great many of the points we have dealt with to-day have only been generally discussed by the Federation, without reaching definite conclusions.

Chairman: Quite. We shall not take the Federation as committed to all the views you have personally expressed to us. We recognise that we have in the Paper handed in the carefully considered and balanced statement of the Federation. We are very much obliged to you for your evidence and we shall see you again on your evidence as to the internal aspects of the problem.

(*The witnesses withdrew.*)

(*Adjourned till Wednesday, 26th March,* 1930, *at* 4.30 *p.m.*)

EIGHTEENTH DAY.

Wednesday, 26th March, 1930.

Present:

The Rt. Hon. LORD MACMILLAN, *Chairman*.

Mr. ERNEST BEVIN.
The Rt. Hon. LORD BRADBURY, G.C.B.
The Hon. R. H BRAND, C.M.G.
Professor T. E. GREGORY, D.Sc.
Mr. J. M. KEYNES, C.B.
Mr. LENNOX B. LEE.
Mr. CECIL LUBBOCK.
The Rt. Hon. REGINALD McKENNA.
Mr. J. T. WALTON NEWBOLD.
Sir WALTER RAINE.
Mr. J. FRATER TAYLOR.
Mr. A. A. G. TULLOCH.

Sir FREDERICK LEITH-ROSS, K.C.M.G., C.B.
Mr. G. ISMAY, *Secretary*.

The Right Hon. Montagu Collet Norman, D.S.O., Governor of the Bank of England, called and examined.

3317. *Chairman*: Gentlemen, this morning we have the advantage of the presence of Mr. Montagu Norman, the Governor of the Bank of England. I may say, as I think you know, that I have had the advantage of one or two informal conversations with the Governor with a view to deciding in what way we might best avail ourselves of his assistance. We came to the conclusion, as I reported to you before and I think you agreed, that the best plan would be in the first place to ask the Governor to come, as he has come this morning, to survey the position with us generally. He has been good enough to say that he will be happy to come on subsequent occasions and discuss with us other aspects, perhaps more detailed aspects of our problem, as they develop in our hands. The purpose of this morning's meeting is really, if I may say so, introductory. I propose to ask the Governor to give his general survey of the position in which we find ourselves in relation to finance and industry, the approach which the Bank has made to those problems, and the outlook as he conceives it.

Mr. Norman, I think you are familiar with the Terms of our Reference which I may just recite once more. Our Committee was appointed "to inquire into banking, finance and credit, paying regard to the factors, both internal and international, which govern their operation, and to make recommendations calculated to enable these agencies to promote the development of trade and commerce and the employment of labour." Our inquiry, as you will appreciate from the Terms of the Reference, is of a very wide character. The operative part of our Reference is to make recommendations, if we are able to do so, which will promote the development of trade and commerce and the employment of labour, and those recommendations, of course, will relate themselves to the financial aspect because the inquiry is into banking, finance and credit. This morning we should much appreciate an account of your own survey of the position in which we find ourselves just now. We all recognise the exceedingly grave position in which commerce and industry find themselves. The papers this morning remind us of the steadily growing volume of unemployment and the difficulties which industry and commerce are experiencing in re-establishing themselves under post-War conditions. We realise that the relation of finance to these problems must necessarily be intimate, and we appreciate that no one is better able than you are to assist us in ascertaining the true relations between finance and industry and the nature of the problems which arise. I think that in the first place we would like to have from you a statement as to what we may call the financial presuppositions of the position as you conceive them to be just now; how far in your opinion finance has to do with the present emergency; how far it is possible for finance to assist in the present emergency; how far the existing regime has proved adequate under the strain and stress to which it has been exposed; and how far it may be necessary to develop or alter the policies that have hitherto been pursued.

I have given this rather rough outline of our position to you in order that you might see where we are. We have already had a considerable amount of evidence more or less of an expository character descriptive of the existing system. We have also had a certain amount of critical evidence, and we have had among ourselves a good deal of discussion, but we are now approaching the stage when we wish to get closer to the questions before us, having in view that it will be our function ultimately to make recommendations. We recognise that whatever be our recommendations, the Bank of England, owing to the position which it occupies, will necessarily be the prime instrument for carrying into effect any recommendations which we may make in relation to finance so far as they may commend themselves to Parliament and to the Executive. It is therefore most desirable that at every stage of our progress we should keep in touch with you and ascertain how far you can assist us, not only in formulating our proposals, but also in indicating to us how far they are practicable, and how far in your view they would be of public advantage. Would you be good enough to start our meeting by giving us, in the first place, a short statement of your approach to the present problems? —Well, Mr. Chairman, the first thing I wish to say is that I owe you perhaps and the Members of the Committee some apology for not having appeared before you at the end of last year, when you were good enough to invite me to do so, and I regret that the circumstances which prevented my coming were beyond my control. I hope you will take it at that. Next, I am glad to make this first appearance before you, and I hope you will give me the opportunity so often as I can of coming again in order that I may attempt with you, if you will, to disentangle some of the difficult problems which undoubtedly lie ahead of us, as perhaps we have in one way or the other disentangled some of those problems which are behind us, because that, I believe, to some extent has been accomplished. I should like to do that because I believe that we can all help one another, and I do not believe it is possible to have a position in which one section of us will benefit and the remainder will be harmed. It is all either up or down together, broadly speaking.

Before I try to go into that very complicated outline which you sketched for me, and which I doubt if I shall achieve in one attempt, I would like to give you in a few minutes some sort of picture as to what over the last few years I have been trying to do, because just the same as all things have a background so I—by which I mean the Bank which I represent—have a background. If I look back a certain number of years during which time I have been working at the Bank, without attempting any exact chronological review, I see that, running throughout the whole of that period, we have had to deal with certain special problems in addition to normal questions. There was, for instance, the troublesome question of perpetual maturities of Debt occurring practically from year to year and giving us no respite. That has been a more or less continuous trouble, internal problems of that kind. But there are two other things externally to which over those years I have really devoted the greater part of my time.

The first of those—long, troublesome, and in some ways disappointing—was the stabilisation of the European countries which had lost what they had possessed before the War. That, which I thought, and still think, was necessary, although difficult in many ways, is to-day, and has been for some time in the main achieved. The second thing was in many ways more difficult, and to some extent has been less achieved, but is in process thereof; that was to bring about co-operation among the Central Banks of Europe and the world on the sort of lines which were originally sketched at Genoa. The latter followed the former. The second was difficult; many personal questions have arisen and still arise in connection with it, but, after all, in my view a great deal has been achieved by the work that has been done in one way and another, by one person and another. It was not in all instances carried as far as one hoped it would have been; it was not always possible to carry it through with the assistance of the League of Nations as at one time one had hoped would be the case, but by and large a great deal has been done and the so-called B.I.S. which is about to be set up is in many ways the climax of our efforts. Those two endeavours have been to that extent accomplished.

A year or two ago we were forced, as I think, to look closely at the position of industry in this country with which previously we had practically no direct contact, and with which as a Central Bank many persons think that even now we should have nothing to do. Nevertheless, owing to the special difficulties and uncertainties in which industry has been, and I think in many ways still is, and having accomplished, so far as one could, the two external operations which I have described to you, we turned to industry, and, unusual as it may be, we have devoted during the last year or so and are still devoting efforts to an attempted study of industry, mainly the heavy basic industries of this country. I do not know whether, technically speaking, we were right or, technically speaking, we were wrong to do such a thing, but I do know that the situation in industry appeared to be such that if our action was theoretically wrong it was in the circumstances a trifling sin that we committed and well worth doing, and I do not regret for one moment having attempted to become interested in this subject. To put it in a nutshell, the information which I have received leads me to believe and hope that the salvation of industry in this country, without which commerce and finance cannot long, or indefinitely, continue, lies in the process of rationalisation, as it is called, which I am not going to attempt to define, which has been defined in many varying ways, but to which I am a strong adherent, and it is towards the goal of rationalisation, however it be precisely defined, that I hope the Bank of England will contribute as much as it can over the times to come. Now, there are many in this room, I feel sure, who know far more about the industries of this country than I know or shall ever know, because I do not claim any special knowledge about them in detail, and it would ill become me, therefore, to attempt any sort of an essay or to make any dogmatic statement on a subject which is so complicated and difficult and obscure, but, broadly speaking, I believe, if I may say so, that the salvation of industry in this country lies first of all in the process of rationalisation, and that is to be achieved by the unity or unification or marriage of finance and industry. I should like to think, Mr. Chairman, that one of the chief objects and results of your Committee will be that you will bring about that unification between industry mainly in the North, and finance mainly in the South, each of which I believe can contribute enormously to the benefit of the other and to the benefit of the whole of this country. That is how I should look, in a word, upon the object which I hope you will achieve and in which I should like to be allowed to help.

Now, I must say, if I may continue for a moment on this question of industry and our part in it, that just as it is no proper part of a Central Bank's normal business to investigate or have directly to handle industry as such, so a year or so ago, having already made some short progress in the investigation of industry, we planned to form as a matter of convenience a small company in order to segregate these particular operations, and it is through that company we have been endeavouring to deal with such of the difficult and wide questions which have arisen to which as yet little contribution has been made. I wish to say right away, too, that although we did establish that small company in our crusade for segregating such industrial investigations and activities as the nation might need, so I looked upon that as merely a stepping stone, and

I am now about to take another step in which I hope sooner or later we shall have your assistance and goodwill, Sir, to establish another company which will unite the City as a whole in showing a willingness for the time being and over a certain period of years to assist industry towards the goal of rationalisation. Now, have I said enough, or do you wish me to go any further, or what do you want me to do? I have given you a picture.

3318. I think we appreciate what you have in prospect. I should like, however, first of all, to have from you your view of the existing interaction of finance and industry; how, in your view, does finance influence industry; how do the two come into contact, what is the relation between the two; because, in my lay mind, I do not understand clearly yet how the operations of finance affect industry. You have very responsible duties in connection with the regulation of the financial system of this country. I think everyone agrees that those decisions have very important repercussions upon industry. I should like to know from you how you figure the interactions between what you do in high finance and the actual practical commercial and industrial position. Because if you take these important decisions as you do from time to time and they have consequences throughout the length and breadth of the land affecting every employer and employé, it is very important that we should see how you conceive that your decisions interact with the industrial position. You see what I mean? —I think I see what you mean; but if you would ask me a more precise question perhaps I could better give you an answer. I have not in mind a method by which I could answer satisfactorily so general a question.

3319. Let me put it in this precise form. You have from time to time to consider whether you will raise or lower the Bank Rate, which is one of the chief functions of the Bank of England. Have you in view when you raise or lower the Bank Rate what are or may be the consequences to the industrial position of the country?—I should answer by saying that we have them in view, yes, but that the main consideration in connection with movements of the Bank Rate is the international consideration, and that especially over the last few years so far as the international position is concerned—certainly until the last few weeks—we have been continuously under the harrow.

3320. It would be interesting for you to tell us how far you are a free agent in this matter and how far you are under the compulsion, on the one hand, of the legislative scheme under which you work, and, on the other hand, of the international position over which you have not got control. How far are you a free agent?—I should say, so far as the legislative position goes, we are a free agent, but so far as the international position goes, if I judge the second part of your question rightly, we are not at all a free agent, but that the whole of the international machinery is bound together and that however much or little it may be recognised, it necessarily works as a whole, as, indeed, it should do, and that in point of fact what is called the gold standard is the cement by which it is bound together.

3321. And, accordingly, if the international position is dislocated or not-working harmoniously you are really at mercy?—Not only if it is not working harmoniously—though that may make matters worse—but we are subject to whatever conditions may dominate the international position, certainly.

3322. Therefore, we may take it that when you have to consider the question of raising or lowering the Bank Rate, the predominant consideration in your mind is the international position?—At times it would be the predominant consideration. At times it might cease to have that importance, but over the last period of years the international situation has undoubtedly been the predominant consideration.

3323. Then carrying it a step further, is it because international movements are depleting the stock of gold in this country that you find it necessary to arrest that course by increasing the Bank Rate?—It may come down to that ultimate question of the stock of gold, or it may come down to the general question of rates of interest and confidence. There are many other precise forms that it takes, but, generally speaking, that is true.

3324. Of course, the power which resides in the Bank of England of raising or lowering the Bank Rate is an instrument of the very greatest possible significance, I think you will agree. If that instrument is used for the purpose of preserving the stock of gold, is it effective for that purpose?—It is effective.

3325. How far is the instrument with which you are equipped effective for the purpose?—It is effective.

3326. For that purpose?—It is effective in my opinion.

3327. Equally you will recognise, I think, that while that instrument so used by you may be effective in achieving the particular object you have in view, it must simultaneously have internal consequences upon the credit of the country. You have to look both outwards and inwards?—The two are parts of a whole, I agree.

3328. Yes. One of the problems to which we have been addressing ourselves is whether the use of the instrument of the Bank Rate, effective it may be in achieving the purpose you have indicated, may not be accompanied internally with unhappy consequences. You may be effecting an operation of great value from the financial point of view which has nevertheless unfortunate repercussions internally by restricting credit and enterprise. Your instrument may be doing good in one direction and harm in another. I should like to have from you your conception of the internal effect of the alteration of the Bank Rate. Externally you say it achieves its purpose of arresting the flow of gold if you raise the Bank Rate. Internally, how do you conceive that it operates?—Well, I should think its internal effect was as a rule greatly exaggerated—that its actual ill effects were greatly exaggerated and that they are much more psychological than real.

3329. Yes?—Much more psychological than actual.

3330. The same would apply to a reduction in the Bank Rate—the benefit accruing from a reduction in the Bank Rate?—Yes. I do not mean to say that a large variation in the Bank Rate, a difference of three points or whatever it may be, does not bring about a wider change than that, but I have always thought that in the process of change from one rate to another, the difference is much more largely psychological than it is actual.

3331. But even if it has psychological consequences they may be depressing consequences, and may be serious?—Yes, but not so serious as they are usually made out to be, and I think that the benefit on the whole of the maintenance of the international position is so great an advantage at home, for industry, for commerce, for——

3332. You take the large view. In your opinion, I gather, the advantages of maintaining the international position outweigh in the public interest the internal disadvantages which may accrue from the use of the means at your disposal?—Yes, I think that the disadvantages to the internal position are relatively small compared with the advantages to the external position.

3333. What is the benefit to industry of the maintenance of the international position?—This is a very technical question which is not easy to explain, but the whole international position has preserved for us in this country the wonderful position which we have inherited, which was for a while thought perhaps to be in jeopardy, which to a large extent, though not to the full extent, has been re-established. We are still to a large extent international bankers. We have great international trade and commerce out of which I believe considerable profit accrues to the country; we do maintain huge international markets, a free gold market, a free exchange market—perhaps the freest almost in the world—and all of those things, and the confidence and credit which go with them are in the long run greatly to the interest of industry as well as to the interest of finance and commerce.

3334. One of the criticisms which has been made is that while the policy pursued may have been excellent from the point of view of the financiers of the City of London, it has not benefited the industries of this country—that the considerations which have moved that policy have been directed rather to the financial side than to the plain man's industry?—I know that is said. Of course, industry has had ill luck, shall I say, and has been in a very unfortunate position and from one reason and another has suffered particularly. I agree; I am sure that is true.

3335. There has been no doubt a conspiracy of causes at work?—Almost; yes.

3336. But among the causes at work many minds apparently maintain the view that the deficiencies in our financial system are at least partly to blame and that some revisal of financial policy is necessary. You referred a few moments ago, Mr. Governor, to the project of rationalisation. That, if I may say so, speaking for myself, seems to be merely the sort of thing that people ought to do in any circumstances, put your house in order, see that your business is right and so on. We have always known that good organisation and good management produce better results; in one sense there is nothing new in that; it is a new phrase, a new word, and these long words become very attractive to popular imagination. Now, rationalisation means nothing more than putting businesses in order when they have got out of shape. But that does not seem to me to go to the root of the matter. It does not really deal with the kind of problems to which we have got to address ourselves, namely, the pre-suppositions of the whole system on which we work, the control by the Bank of England of the Bank Rate as the main instrument of policy. It is a question whether those things are working at the present moment for the public advantage, or whether it is not necessary to devise some new expedients. May I put this to you? The very fact that the Bank of England has recently, for the first time in its history, embarked upon entirely new activities seems to me to indicate that the Bank of England has realised that this country is at this moment in a quite unusual position calling for unusual remedies, else why has the Bank, so to speak, left the seclusion of Threadneedle Street and gone down into the streets of the City? It must be because something is in the air, something is happening just now which has never happened before which calls for a review of that position, and even in your case has caused you to emerge from your seclusion and embark upon courses which, whether attractive to you or unattractive to you, you felt it your public duty to engage in. All that is symptomatic and indicative of something being at work just now which has not been in our experience before. How far do you think that position in which we find ourselves, the position of abnormality, is attributable to financial considerations? Have you thought out how far the existing financial structure provides adequate means of dealing with this abnormal position? Finance is no doubt needed to enable a business to re-equip itself and re-arrange its working. That has always been going on on a larger or smaller scale; we were familiar before the war with amalgamations of bodies that desired to achieve economy and efficiency. But apart from the finance of rationalisation it is the pre-suppositions of the financial structure of our country upon which our attention at the moment is concentrated, and we are anxious to scrutinise it to see whether it is at that door that the present distress can be laid, and then to see how far it can be aided by any financial expedient. You see how I am looking at it?—I think it is not our financial system which is the cause of our difficulties.

3337. You think it is not a financial question?—I think it is not a question where finance is the difficulty.

3338. May I just add one other thing to your consideration of the problem, because it is important. We are now, I think, round this table, fairly familiar—thanks to Sir Ernest Harvey's admirable exposition—with the normal working of your system and, indeed, all are prepared to pay tribute to the marvellous efficiency of its working within what I may call a normal range. But all instruments are devised to work within given conditions and I gather that in the view of many experts your system has got jammed—in short, that it has been asked to do things that it was not intended to do and that it is breaking down under the strain. The very fact that you have moved out into new spheres is itself symptomatic of a sense of uneasiness that the present system is inadequate and that new systems must be devised. You say you think that the present system is still adequate. Is it still adequate in a world in which the elasticity of adjustment which I should have thought was essential to the adequate working of your system is not attainable for either economic or political or other reasons? If a machine gets jammed it will not work, and may it not be that some of our troubles at the present moment are due to trying to deal with financial problems with an instrument which was designed to deal with other and more normal conditions? Speaking for myself—I do not know in the least whether my colleagues would approve of the way I am putting it—that is the kind of problem that presents itself to me?—Broadly speaking, I do not think that the financial machine is at fault. I think, to use your expression, that industry has had a series of—misfortunes, was it?

3339. Yes.—Or mischances over the last few years and, as it were, has jammed. I think that although rationalisation is a new word, it is an old process; it is an old process which has largely fallen into disuse and it is also, as intended to-day, on a different scale, so different a scale that it is almost a difference in kind as well as in degree from what was originally had in mind. I have never been able to see myself why for the last few years it should have been impossible for industry starting from within to have readjusted its own position. I have never been able to see it on broad lines, taking not companies but industries practically as a whole, which is what I have in mind. I have never seen, and I do not see to-day, why that should not have been done. I know many who are interested in industry who believe that it might have been done. I believe that had it been done the whole face and prospect of industry would look different to-day. It is this long period of mischance, of being in a jam, which seems to have disheartened industry. I do not think myself that that is the fault of finance, except in so far as finance is dependent on a certain international position and certain international liaisons from which it cannot and should not detach itself or attempt to detach itself.

3340. Of course, industry is largely affected by the price level?—I agree.

3341. And one of the most amazing experiences through which we have been passing has been the fall, if I may use the journalistic word, the phenomenal fall in price levels?—Yes.

3342. Has not financial policy something to do with that?—I believe practically nothing in so far as the most recent and heavy falls are concerned.

3343. *Mr. Bevin*: I would like at this particular point to ask Mr. Norman whether or not he does not think that the action of 1925 just made that jam in industry complete, when we as industrialists were given a task of adjusting to the point of 10 per cent. without notice and without any chance of even considering the question?—I think that the change of 1925—and I have no doubt we are both referring to the same change——

3344. Yes.—was inevitable, made at the right time, but, as the Chairman has said, certain misfortunes of one kind and another have subsequently intervened and have made any effect which that change of 1925 might have had far more difficult and serious, but I do not attribute the ills of industry in the main to that change, and had that change been made and not been succeeded by other things which have happened, I do not think— —

3345. But in view of the fact that it did involve facing the workpeople of this country with a proportionate reduction of wages, did it not make the misfortunes that you describe absolutely inevitable?—No, I do not think so.

3346. That is what happened?—I do not think as a necessary consequence.

3347. How could it have been done? You are Governor of the Bank of England. I am a Trade Union Official. That is the point we had to face across the table. I am taking from 1921 up to the point of 1924; I am meeting the industrialists who do not know anything that is in the mind of the Bank of England on the financial policy of this country. They have no knowledge that you are going to interfere, that you are going to restore the gold standard, that you are going to do anything. We met morally the first period of deflation in 1921 when the first step to deflation was taken. We knew that we had to face a heavy reduction of money wages to get a post-War adjustment. We proceeded from 1921 onwards meeting employers across the table and getting that post-War adjustment to a new price. Contracts have been fixed on that new price, new standards have been worked out, men are becoming accustomed to that, to that level of earnings, to everything on the new basis. Suddenly the whole thing is upset by the steps taken in 1925 which throws every bit of work that the two parties in industry had done out of gear. We are faced with rising unemployment, bitter disputes, and a new level of wages to be fixed, without notice, without consideration, without guide, without any indication as to what its object is. I ask you, Mr. Norman, if industry is placed in a position like that, whether or not you do not think the misfortune of the jam is absolutely inevitable?—No, I do not, Sir.

3348. *Mr. Newbold*: Why?—So far as I can tell you—of course, this is a very technical matter which I——

3349. *Mr. Bevin*: No, it is a question of broad policy. You used the term "marriage." If industry had been married to finance and we had known how the two minds were moving and what we had to face, that is one thing, but we are left ignorant of this secret operation which is one of the prime factors of industry, and we get this sudden jam?—Action has to be sudden when it comes.

3350. *Mr. Newbold*: Why?—Because it must take effect from a certain date.

3351. Can you not give an indication in advance that it will take effect? (*Mr. Bevin*): I am anxious, Mr. Chairman, to test this point that finance has had nothing to do with the misfortune of the jam. As an industrialist constantly having to handle the problems of nearly half a million men my difficulty has been that while the industrialists and I may build up the best relations possible, suddenly this third unmarried factor in industry—if I may use the term—can operate in a way which destroys all the domestic relationships that exist between us. That is the point I wanted to get at. (*Chairman*): I thought it was more or less accepted that what happened on the reversion to the gold standard did subject the industrial machine to a very severe strain, but that in your view and the view of those who had charge of the policy, the considerations in favour of the reversion to the gold standard were so dominant as to make it worth while to incur even those jolts and strains. I understood that was your view?—That is quite right, and had it not been for other factors which have intervened as I believe since, that would not have given you, Mr. Bevin, the reason to complain as you have done.

3352. *Chairman*: Let us examine that a little. It is an interesting point. It may be that the consequences of the reversion to the gold standard have been greatly aggravated by other conspiring causes. Everybody would agree that it is not the sole culprit, so to speak, and that other causes have unfortunately aggravated the result. May I take it that at the time when the big change over was decided upon it was thought that the time was apposite?—It was thought as I remember it that the time was apposite.

3353. Was that because the circumstances as they were then conceived were thought to render the change as little disturbing as possible?—As little disturbing as possible, and the fact that a decision at that moment had to be taken to go either to the right or to the left.

3354. But were not the hopes that the change would be made with the least possible disturbance to a large extent falsified—in short, those who thought that the time was apposite and who prophesied that the change could be made with comparatively little disturbance were out in their calculations, because it turned out in the event that it did cause very considerable disturbance, either by itself or in association with those other causes. You see what I mean?—Yes.

3355. It may be quite true that a person says now is the moment to do a thing, now is the most favourable moment, and that is, of course, a judgment proceeding upon a survey of the whole position. Those who came to that decision may have been wrong in their survey, or things may have occurred to falsify their prediction?—I should think it was true that some of the events which occurred in association with or subsequent to that change were unexpected in regard to time and extent, and have made the position of industry as you have described it more difficult than was foreseen. I have not the exact sequence of events very clearly in my mind; it was some years ago—but that is the impression I have.

3356. That is how it appeals to me following up Mr. Bevin's point, that if all had turned out as was expected, or shall I say, hoped, the disturbance with which he and those associated with him were confronted would have been much less serious?—I agree.

3357. But in consequence of the other causes that have conspired since that time to falsify that expectation the result has been, in fact, very serious?—Very serious for industry.

3358. And if these circumstances which have supervened had been foreseen it may be that you would not have reverted to the gold standard at the time you did?—I will not say that.

3359. That is, of course, speculation?—Yes.

3360. *Mr. Keynes*: May we ask what those other circumstances were?—I think they were very largely France and Belgium—the stabilisation of France and Belgium.

3361. Their return to the gold standard?—Yes. at certain levels. Germany, for that matter, too. As I remember it those were the principal questions.

3362. You mean their stabilising their money at a low level rather than at a high level?—At a very low level.

3363. *Mr Newbold*: What do you think induced them to do that at a very low level while we did it at a high level?—I do not know. I think the levels they chose were largely fortuitous.

3364. *Mr. McKenna*: Following Mr. Bevin's point, can you tell us what are the conditions which you would regard as opportune for reverting to the gold standard?—I could not deal in general terms with a matter which might be subject to such varying conditions.

3365. Would you not regard the external value of sterling at the time as a major condition?—As a condition, certainly.

3366. As a major condition?—Maybe as a major condition.

3367. If you found that the external value of sterling, say, the value of sterling in relation to the dollar, was such that the price level in this country was considerably higher than in the United States, would you not regard that as an unfavourable condition for returning to the gold standard?—I should not take that as an argument itself in favour of it. By and large, taking all the considerations into effect, at the time it was considered, I was then, and I am now, of the opinion that the right step was taken.

3368. It would be very interesting if you could recall the considerations to mind now?—There was a Commission, or Committee, which sat on this question for some time.

3369. Yes. Were you acting upon the recommendations of the Committee, then? Were those the considerations which guided you?—I should say so. I think Lord Bradbury was on the Committee.

3370. *Lord Bradbury*: Yes. The phenomenon to which Mr. McKenna refers, the approximation of the rate of exchange to the old gold parity of the dollar, took place while the Committee was sitting, before any recommendations were made. I think, if I remember rightly, the actual difference at the time the Committee reported, as regards the exchange parity, was only something like 1½ to 2 per cent. The exchange had gone up to pretty nearly the old parity. (*Mr. McKenna*): I do not want to go back upon the circumstances of that time, but I am rather under the impression that the sterling exchange was forced up in relation to the dollar at that time. (*Mr. Brand*): I should imagine that when committees were sitting to discuss this question there was speculation by everybody in the world?—Not speculation by me or by anybody connected with me.

3371. *Mr. McKenna*: I put my question in the wrong form; I should have said artificial, that is to say abnormal, means were forcing it up—the anticipation that the Bank of England was going to do it gave an opportunity to the speculator which left him speculating upon a certainty?—He took a view, not a certainty.

3372. If he knew that the Bank of England was going to press this policy he was speculating on a certainty?—First of all, he cannot have known that, and secondly, he cannot have known that even if the Bank of England were in favour of a certain view it would be adopted.

3373. *Lord Bradbury*: Is it not true also that American prices were rather on the up grade at that time, and the difference of something like 10 per cent. between British and American prices was likely to narrow?—I have no exact recollection on this point.

3374. *Mr. Bevin*: In fact the disparity that was created for industry by that act of 1925 has not yet been got over?—I am told that it has just about been got over. I cannot give you chapter and verse for it.

3375. Would I be right in assuming that whatever were the circumstances that led to the decision to return to the gold standard on that basis in 1925 the effect of that act upon industry has been to leave us with a million and a-half unemployed, or more, for five years?—No, I am not aware that that is a true statement. I do not think that that has been the cause, or the sole cause; I should imagine that a great many other things have contributed to it.

3376. But even in inquiries that have recently been held, with one of which our Chairman has been associated, I think it has been argued that the cost of production, as expressed in wages, must come down 10 per cent. even now to get to the level?—I am not aware of that.

3377. *Mr. Keynes*: Might I go back to points rather of detail arising out of one or two of your earlier answers? You told us that in your opinion the internal effects of a rise in Bank Rate are largely psychological?—Yes.

3378. Is there any relation between the level of Bank Rate which might be forced on you by international conditions and the volume of credit which can be made available at home?—I do not think one necessarily governs the other.

3379. If you had to-day to raise Bank Rate, say, to 5 per cent. for international reasons, do you think that you could make that Bank Rate effective without altering the volume of credit at all?—I do not say that you could for certain, but you might be able to do so.

3380. How would you do it?—Very often, or at times, the Bank Rate makes itself effective, and no steps are taken. It is largely a question of the outlook of the market, and appreciation of the technical position of the market. It does not necessarily follow, I think, that a rise in the Bank Rate has to be made effective by any special measures.

3381. But it is very frequently the case, is it not?—Frequently the case, but not by any means always the case.

3382. If it is frequently the case, do you say the effect of the curtailment of the volume of credit is merely psychological?—No, but I should say that the effect of the curtailment of credit was very small relatively to the whole mass of credit; that it mainly affects short money.

3383. What would you call "small"? Do you mean if securities at the Bank of England were reduced by, say, £5,000,000 you would call that "small"?—I cannot name a figure of that kind, because the conditions change so often, and the whole volume changes so often, but what I mean is that the amount of security operations necessary to make a Rate effective is as a rule very small compared to the amount of securities which are in the market.

3384. Of course £5,000,000 would be small in relation to that?—Very small. I am not thinking of £5,000,000 as an absolute figure.

3385. If the amount of assets held by the Bank of England were reduced by £5,000,000 by how much would that reduce bank credit throughout the country?—I think your neighbour would tell you that best.

3386. *Mr. McKenna*: About £50,000,000—ten times the amount?—I do not know that that is necessarily so.

3387. *Mr. Keynes*: You do not know?—Ten to one is an arbitrary reckoning based on the bankers' normal percentage of cash.

3388. Would the curtailment of credit by £50,000,000 have no effect of any importance on industry?—I do not think it would; I would be surprised if it had much effect beyond the money market unless of course it had to be continued over an extended period.

3389. In some discussions we have had in this Committee I began by setting forth what I believed to be the orthodox theory of the Bank Rate, the theory that I thought all authorities would accept. What you have been telling us to-day very nearly amounts to a repudiation of that theory?—I did not mean to repudiate it, as I understand it.

3390. What I thought was the more or less accepted theory of Bank Rate was that it works two ways. It has the effect on the international situation that has been described to-day, and its virtue really is in its also having an important effect on the internal situation. The method of its operation on the internal situation is that the higher Bank Rate would mean curtailment of credit, that the curtailment of credit would diminish enterprise and cause unemployment, and that that unemployment would tend to bring down wages and costs of production generally. We should then be able to increase our exports, with the result that the high Bank Rate which was put on to check foreign lending would no longer be necessary. How very essential that double action is I can illustrate in this way: we are an old country, it may be there is not much investment worth while in this country that would yield, say, more than three per cent.; other countries might offer, say, six per cent. Our balance of trade would not be sufficient to discharge all the foreign lending which we should like to discharge, all the foreign lending which we should like to do at six per cent., therefore the Bank Rate would be raised to something in the neighbourhood of six per cent. That would stop investment at home which, by hypothesis, would only yield three per cent. If the sole effect of the six per cent. Bank Rate was on the internal situation we should never recover our equilibrium, because we should always be stopping enterprise at home, we should always be throwing men out of work who were previously engaged for home investment and we should not be getting men into work in order to provide more for export or get more foreign investment. The virtue of Bank Rate is that, while it would have a quick effect on the international situation; it would also have a slow and perhaps more important effect on the internal position, by setting up tendencies to bring about a new level of money costs of production, so as to enable us to have more nearly that level of exports which the international position requires of us. If the effect of Bank Rate on the internal position were of a negligible character all that would not happen. Am I right in thinking that you would agree with that, what I call, perhaps wrongly, orthodox theory of Bank Rate?—I should imagine that, as you have stated it, that is the orthodox theory, taking a long view, and as such I should subscribe to it—I could not dispute it with you.

3391. If that is so, half the point of Bank Rate is that it should have an effect on the internal situation?—Well, I do not think so necessarily apart from the short money position.

3392. And that internal effect would work through the chain of depressed enterprise at home, and unemployment, and it would be only in that way that you could put on the necessary pressure towards the reduced level of money costs in this country? (*Mr. Brand*): May I just intervene for one moment? Would you say that that orthodox theory took account in the old days of the very large supply of floating capital that now moves about? (*Mr. Keynes*): I should say that was one part. (*Mr. Brand*): Would you say that that element is much bigger now than it used to be, and that consequently you might be able to readjust the situation more quickly? (*Mr. Keynes*): That would be only a temporary help to the external situation. The next point in my mind was, that during the nineteenth century the amount of reduction of money costs which one asked the Bank Rate to effect when we were getting out of adjustment internationally was very small, and probably not more than was accounted for by the normal increase of efficiency. Consequently it was very seldom necessary to force money wages down, it merely meant one had to hold back a little from increasing money wages at a time when increase of efficiency would otherwise have justified that. By that means we could keep ourselves in equilibrium internationally. But in the course of the last four or five years we have been asking Bank Rate to effect a much greater readjustment, and asking it to do this at a time when, for various reasons which I need not go into, the level of money wages is very sticky. One of the suggestions put to this Committee was that this stickiness in money wages was interfering with the traditional operation of Bank Rate. When we returned to the gold standard I myself was of the opinion that this would require the reduction of money costs and that that would provoke trouble, but I certainly never contemplated that it would be as difficult as it has been. I should certainly have forecast that by the year 1930 we should have overcome the maladjustment. It is essential to all this argument that Bank Rate does have an internal effect, otherwise we should never get back to equilibrium. If internal prices were changed to an important degree, as they were changed, and if Bank Rate had no internal effect worth mentioning, it seems to me the whole thing would break down. How far would you agree with that?—Applied to a long period I think I should agree with it. I should think there had been that stickiness in respect of wages in this country, and I should think there had been this great variation for the last year or two in the price level quite apart from Bank Rate or financial causes, or largely apart from it—world causes.

3393. I am not saying that financial influences at the time we are discussing would necessarily reduce real wages, I am only saying that they do require us to take the position in the outside world into account; if our relation with the outside world is changed, as it was when we returned to the gold standard, that means that there must be a change of money values in this country. One might effect that change of money values by decreeing, as they have in Italy and in Russia, that money values should be changed; but our method in this country is not to rely on that, our method is to rely on Bank Rate, and Bank Rate operates, as I understand it, precisely by a depression of enterprise when one wants to put values down, by an encouragement of enterprise when one wants to put values up. So it is of the essence of the case that Bank Rate should have an important effect; that when it is raised it should have an effect in the direction of unemployment. That is what you want. Am I right?—Yes, I should think it was, but is there not the question of how far Bank Rate is relative in regard to all the other countries coming into this position?

3394. Oh, from the international position, very much. If we are forced, for international reasons, to a rate which is depressing to enterprise in this country, then all this sequence of events which I have been describing is set up?—Yes, but the rates being relative in the various countries, their effect on the industries of the various countries should be more or less similar.

3395. Except that there might be local conditions in some countries which would support higher rates, either because they are new countries, or because, like Germany, they have greater efficiency?—Yes, or because they have readjusted their industry.

3396. Yes, or it may be that the rate at which they stabilised their currencies made their real wages for the time being so low that their industrialists could easily afford a higher rate of interest than our industrialists—we having stabilised at a higher rate—could afford?—Yes. The instances mentioned a few moments ago I think apply particularly to that—France and Italy.

3397. *Mr. Keynes*: Yes; that I took to be the force of your remarks. (*Chairman*): I do not think the Governor would suggest that an alteration in the Bank Rate would have no ultimate repercussion in this country. I think he must be thinking of the immediate reaction?—I am thinking of the market position in so far as it immediately affects the exchanges.

3398. Would you agree with Mr. Keynes' view, which I think is generally accepted?—Yes.

3399. That that is the ultimate effect of an alteration of Bank Rate in this country?—Yes, I think I should. (*Chairman*): That is the important point.

3400. *Mr. Keynes*: From the psychological point of view there might be a tendency for the business world to expect something that is not going to happen, or it might be because of intelligent anticipation. Is it rather in this instance a case of intelligent anticipation?—In which case?

3401. The immediate psychological influence of Bank Rate is an intelligent anticipation of the market of the result that will flow from Bank Rate in due course?—I do not think the market looks as far as that.

3402. Do you think that if the market were influenced by current delusion, rather than by vision, it might be intelligent all the same?—Yes; almost unconsciously intelligent. (*Mr. Keynes*): Very likely.

3403. *Mr. Bevin*: Having regard to the fact that the workpeople at home have to suffer the biggest blow of unemployment and the depression of their standard of life, can you see any way to separate the national and the international policies, so that the effect of restoring the gold position internationally can be in some way modified in its effect upon British industry?—I believe it is absolutely impossible to have two separate policies.

3404. *Chairman*: Let us follow that up; that is interesting; that is one of the problems—whether you can, so to speak, dissociate your national and external policies. Is it not possible that you can maintain your international policy outwards and by some of those devices which you have no doubt considered, and others have considered, mitigate the internal consequences of your outward policy?—I think not.

3405. *Mr. Bevin*: Supposing, for instance, you have to stop your gold flowing out, and therefore restrict credit, is it not possible to have a conscious direction of credit under those circumstances to the home market?—And to maintain, as it were, two separate supplies of credit at different rates?

3406. Yes?—I do not think so.

3407. Let us assume that it could not be supplied at two different rates. Could the volume of home credit be maintained?—In some circumstances, yes.

3408. Could that be reduced to any sort of method? For instance, assuming your external trade is good, and credit flowed to your external market until you got to a point where gold began to go out, and then you had to restrict credit, and that produced unemployment, is it possible to have, for instance, some direction through public bodies, municipalities, of the whole operation of credit, and therefore while you restrict one form of credit you maintain the volume of home credit to prevent the blow falling upon the workpeople?—I should say it is impossible. I can see no practical way in which that could be done.

3409. Have you tried to think it out?—I have heard it discussed.

3410. *Mr. Brand*: You started by saying that you had to use Bank Rate to regulate the international position. That, in other words, means to maintain stability of our exchanges?—Certainly.

3411. And the maintenance of the stability of our exchanges is not purely an international question; it is a matter of vital importance to our industry?—Of vital importance to all the questions with which Mr. Bevin is dealing.

3412. Would it not be true to say that there are two quite distinct problems, one is the international and the other national? It may be true, and I think is true, that Bank Rate may have very unfortunate effects on industry in one direction, but it may be necessary for industry in other directions in order to maintain the exchanges. It is not purely for the benefit of other countries?—Far from it. They are two parts of the one question, most essentially, and, as I think I tried to say, it is impossible for one part to benefit without the other.

3413. And the real question is whether you can maintain the supply of credit here and at the same time maintain the exchanges?—Quite right. It is.

3414. *Chairman*: You have, I think, tried some expedients, have you not? Were you not a party to an embargo on foreign investment?—Foreign issues.

3415. Foreign issues?—An embargo?

3416. Well, shall we say a deterrent on foreign issues?—Yes; I was.

3417. Was not that policy on the lines of what Mr. Bevin has been suggesting; was not that intended to mitigate to some extent the effect of the international position?—No, I do not think it was.

3418. What was the object of that?—The particular purpose of that was—and it was not very effective, really—to prevent money being lent to foreign countries and exported at a time when the exchanges were adverse or likely to be adverse.

3419. And, carrying it further, to divert that money to internal uses, was it not?—No; it was an exchange question.

3420. If it had the effect of diverting money that would otherwise have gone abroad to internal issues, would it not consequentially assist industry in this country; money, being deterred from going abroad, would be available for domestic industry?—If it were retained in this country and if the rates were equally attractive in the one place as in the other, but I must confess to you that the purpose of that was an exchange purpose right along.

3421. *Mr. Newbold*: And you say it was not successful?—It was successful to the extent that those who were interested in this business were good enough to forego such opportunities of issues as they had, but it did prove impossible, I believe, not to prevent public issues, but to prevent money going away.

3422. *Chairman*: They found other methods of evading it?—Many.

3423. *Mr. Newbold*: Do you not think we might make a similar appeal to their public spirit for renewed regulation?—I think it would be virtually impossible to be successful.

3424. *Mr. Brand*: Do you mean, Mr. Newbold, the whole public? (*Mr. Newbold*): No. I am wondering whether we could not make an appeal to the issuing houses. (*Mr. Brand*): It has nothing to do with the issuing houses; it has to do with every investor.—Mr. Brand will agree that the question which arose, to which the Chairman has alluded, is a question that a small body of people, all very well known to us, and known to one another, were good enough to fall in with such wishes and views as we expressed; but the matter covers a wider field than issuing houses and includes you and me and Mr. Bevin.

3425. *Mr. Newbold*: You do not think it would be possible to make an appeal?—It would be possible to make an appeal, but I do not think it would be possible to make it successful.

3426. I do not think you could, but I thought that was one channel to be explored. (*Chairman*): The selfish interest of the individual naturally predominates?—Yes; and we must remember this is not British, but European, to a large extent. We are doing a great deal of this for Europe. A great deal of the complaint of what happens is with regard to the business we are doing for Europe, which is largely done in London; when we complain that such and such things are passing over the exchange, it does not mean that they are simply passing over on account of this country; they may be passing over for all kinds of countries—Germany, or Switzerland, or other countries. That is the advantage or disadvantage we get from being a free international market.

3427. *Chairman*: Let me put one or two broad considerations before you. It is, of course, the case that the volume of credit in this country is, to a very large extent, in your hands, is it not?—Yes, I think it is.

3428. And that the volume of credit available in this country from day to day must necessarily have some relation to the enterprise of this country?—Yes, some relation.

3429. After all, money has its price, like everything else; you look at money as a commodity which is bought and sold on given terms, but money is just as essential to enterprise as the raw material of that enterprise. Therefore would you not agree that the question of the extent of the volume of credit at any given moment must necessarily relate itself to the encouragement or the discouragement of enterprise at that moment?—Yes.

3430. I really put this quite elementary position for the moment as a basis for discussion?—Of course, from many angles I should wish to distinguish between short money and long money—there is an essential difference between the two.

3431. Again, when the international position requires, in your view, a raising of the Bank rate, that in turn is made effective by restriction of credit, is it not?—Maybe.

3432. And may it not, therefore, have, as Mr. Keynes was bringing out, a consequent deterrent effect upon enterprise in this country? In your view, I take it, that is inevitable, and, possibly, salutary?—I think it may be inevitable.

3433. And again, speaking in the broadest terms, is it your view that the consequences of that internal restriction of credit, unfortunate as they may appear to be, are outweighed by the advantages of the maintenance of the international position?—Yes, there is very large benefit.

3434. I want to get the theory of the thing. The maintenance of the international position, in your opinion, because of its effect upon the internal position is all important?—Yes.

3435. *Mr. McKenna*: Might I put one or two definite questions on quite recent matters?—Practical questions?

3436. Quite recent matters if you will allow me. You have restricted the quantity of credit by selling securities on balance in the first two months of this year. You had less securities in February than you had in December. Is that so?—I am not sure of the exact figures but I should be surprised if the average of the Bank's total assets in February was much, if at all, below the corresponding figure for December.

3437. You do not remember if you restricted credit?—I am not aware that credit was restricted.

3438. I have the figures for February of this year and February of last year. Between February of last year and February of this year you sold many millions of securities?—Oh, yes.

3439. And you reduced credit?—Yes.

3440. The total amount of credit at the end of February, 1930, compared with February, 1929, represented a reduction of purchasing power of the public of £63,000,000?—You mean that the aggregate of certain banks' deposits——

3441. The aggregate of the clearing banks' deposit was less by £63,000,000?—Yes.

3442. Why did you reduce the amount of credit?—For a reason which I believe to have been sound, as I hope you will agree. I am speaking from memory as to figures; the volume of the bankers' deposits in February, 1929, was abnormally inflated, due to a large extent to the unfortunate fact of the failure of a loan issued two months earlier to deal with certain maturities falling due in the early months of 1929. You will remember that an unfortunate event which took place after the issue was announced caused considerable public alarm, and severely militated against the success of the plans which had been made which, prior to that event, had appeared quite promising. In the end the Chancellor was left to find by other means some £60 millions or so to meet in cash maturing obligations which had not been renewed, and in order to do that it was necessary to make special issues of Treasury Bills to that amount, practically the whole of which went to swell the figure of the bankers' deposits by about the sum to which you have referred. Since then, and notably in February, 1930, steps have had to be taken to rectify a position which had been brought about by circumstances which were entirely fortuitous, such steps being intended to deal specifically with an exceptional and peculiar situation and not to form part of a definite continuous policy.

3443. Would you say that the deposits of the banks and the purchasing power of the public to-day are normal?—Yes. I should say that last year's increase, due to the special expansion of the Floating Debt, was abnormal and that it was necessary and wise to correct the position as opportunity occurred, and in my opinion a reduction in the Floating Debt of the Government was essential.

3444. I am not dealing with the Floating Debt?—No, but it has been due to the special operations in connection with the Floating Debt that there has been an apparently abnormal reduction in the bankers' deposits during the period to which you refer.

3445. I am dealing with the deposits of the banks and the purchasing power of the public. In your view, should the deposits of the banks and the purchasing power of the public remain constant year by year, or diminish year by year or increase year by year?—I do not think that is a question to which it is possible to give a general answer. As I have said, the particular fact to which you have drawn attention resulted from a special and unexpected change in the volume of the Floating Debt, and I think it was essential to rectify the abnormal position thereby created and to withdraw the special issues of Treasury Bills then made as soon as opportunity offered.

3446. I am not dealing with the Floating Debt. I am asking about the deposits of the banks and the purchasing power of the public. Is it, in your judgment, right for the industry of this country that the purchasing power of the public and the deposits of the banks should increase year by year, remain stationary year by year, or diminish year by year. One of the three they must do?—As I have said, I do not think that is a question to which it is possible to give a general answer. I certainly expect to see a tendency for deposits to decline rather than increase during the first quarter of the year when the heavy payments of taxation are taking place.

3447. You think that the deposits of the banks do diminish in the first quarter?—I think they are apt to, and often do.

3448. But deposits only increase or diminish according to your action?—Surely payments for taxation diminish deposits?

3449. Yes, payments through taxation go into public deposits out of the other deposits, but you can immediately put them back into other deposits if you like?—Yes, and frequently do.

3450. If you failed to do that, I agree that deposits would be diminished in the first quarter of the year, but if you do not fail to do that the deposits would not be diminished in the first quarter of the year. Is that right?—That may be true but I should approach the matter differently. I look—the Bank looks—to keep the market supplied in normal circumstances with adequate funds. One of the criteria by which we judge the matter is the amount of funds which the Discount Market may have or may need. One of the unique facts about the London market and its position is the existence of the Discount Market. I should never think that there was real pressure for money unless I saw indications that, in the absence of action by the Bank, the Discount Market might find it necessary to apply to the Bank for advances.

3451. Do you not, in considering the quantity of money required, look at the position of industry and the price level and the number of unemployed—do not these considerations come into your mind in considering the quantity of money, as well as the condition of the money market?—All these things are continually in one's mind. They are, I am sorry to say, matters which, it is quite true, must always be present to one. So far as money is concerned, however, the state of the money market is largely the factor by which the position must be judged and generally speaking I should not say that the volume was inadequate in the absence of some indication from the money market that money was in short supply because they after all are the source from which any bank can replenish its needs.

3452. If you saw the price level falling as it has done the last month or so and unemployment increasing as it has done the last month or so, it would have no effect, I gather, on your mind in inducing you to increase the quantity of credit?—Yes, it would have a great effect on my mind.

3453. Only if the money market borrowed?—One of the indications of a shortage of credit would be signs of pressure in the money market, not necessarily expressed by actual borrowing from the Bank.

3454. If the money market did not make it known to you, you would not necessarily by open market operations increase the quantity of credit?—Not automatically; I should consider that the question of price level, for instance, was a factor bearing specially on a review of the international position. I am told and believe it to be true that recent monetary policy in this country, if not in other countries, has had little effect upon recent movements in price levels.

3455. *Mr. Keynes*: If one takes the figures of the deposits of banks with you, apart from accidental events which you have described, they have kept at a very stationary level. Is that by accident or design?—I should say to some extent by design, though not entirely as the result of a definite policy towards that end.

3456. You have been able to keep them at the figures stated?—Parity, let us say, though I do not attribute it to a definite policy of the Bank.

3457. At least 10 per cent. of the productive forces of this country, both men and plant, are out of work and the existing volume of banking accommodation appears to be fully occupied in keeping the other nine-tenths going. Is it not absolutely impossible that that other one-tenth should be employed as long as you pursue what you call the policy of parity?—No, I do not think that is necessarily so.

3458. How could they be?—Perhaps I did not make my meaning clear. It must be remembered that during the last few years there has been no period when we have not had continuously to face difficulties due to the international position, that is, up to a few weeks ago. I do not myself believe that the mere provision of more money to the bankers is all that is needed to meet the difficulties of industry. I believe that industry has a great deal to do for itself in the way of rationalisation.

3459. You would not expect rationalisation to increase employment until a very late date?—Until a late date.

3460. So you look forward to the present level of unemployment remaining for some considerable time to come?—I would not say that, though I agree that the benefits to be derived from rationalisation would not be immediate.

3461. *Mr. Bevin*: And would increase the progress of unemployment?—It is apt to do so temporarily.

3462. You have no suggestion to put to us how the Bank's policy can help us over that interim period?—I am not prepared to make any suggestion at the moment.

3463. *Professor Gregory*: May I come back to some of the earlier points that you raised because I want them to lead up to other matters. Supposing that the Government had offered you in 1925 an immediate return to the gold standard, but at a parity with the dollar 10 per cent. below the pre-War one, would the Bank have been prepared to accept that offer?—I cannot answer that. It is difficult after this lapse of time to answer a hypothetical question relating to the year 1925.

3464. May I take it that the Bank of England was not in 1925 unduly worried by the possibility that the restoration to the pre-War gold standard would unduly interfere with British industry?—I think that is true.

3465. You thought it would be all right?—I cannot now give the precise process of reasoning which one had in mind five or six years ago, but generally speaking what you state is a correct expression of my view at that time.

3466. What have been the main considerations which you have described as mischances?—I think I meant mainly the stabilisation levels in Germany and other European countries and the accompanying circumstances.

3467. I was very much surprised to hear you say that because I should have thought that the real mischances of 1926 and 1927 were not so much by reason of the stabilisation of those currencies at a low rate of exchange, but the continual fall in exchange in France and Belgium. You had two very serious falls in exchange. I can understand that affecting the situation, but would you not be prepared to say that the mischances which affected us in this country were rather the falling currencies in Europe than their stabilisation?—I think so.

3468. Then I think you said the third important point with which you had been concerned was co-operation among the Central Banks?—Yes.

3469. Do you think, looking back over the last few years' you have in fact achieved any positive success through co-operation?—We have laid the foundations for it, I think. I think it is a most interesting and the most hopeful thing for the future; a great deal has been achieved and I hope a great deal more will be achieved through the B.I.S.

3470. Would you be prepared to say that the economic situation of the country, looked at from the international standpoint, had in the last few years been at all affected favourably by what you have been able to do?—Indirectly yes, though it would be difficult to point to any direct result.

3471. You are not of opinion that the fall in raw material prices is directly due to anything that we have done in recent months?—No.

3472. I am not certain whether you are of opinion that the fall in raw material prices has aggravated the English economic position?—No, I am not sure that it has; I do not think that it has.

3473. Supposing that British money wages remain constant and coal as an international commodity falls 10 per cent.; then in countries where wages are adjustable as they are in Poland, for instance, they have an international advantage compared with us?—Yes.

3474. Would you in those circumstances be prepared to admit that the fall in coal prices has been a distinct disadvantage?—Yes, I would.

3475. Has there been any attempt among the Central Banks of Europe in recent months deliberately to steer against the tide of falling raw material prices?—There has been no concerted action. Discussion, yes.

3476. There has been discussion?—I do not believe that the value of raw materials can be largely affected, or has been largely affected, by the various banks' recent monetary policy.

3477. Let us go back to your own view as to the effect of Bank Rate, that it is very largely psychological, with which personally I agree. Do you not think that if there is a general prospect of Bank Rate going up that affects the large holders of stocks and raw materials, and that makes them inclined to sell in a panic? Would you not say the Bank Rate works in that direction?—I should have thought so, though I believe on the other hand that low Bank Rates have often been accompanied by low prices of raw materials and I have recently seen expert opinion to that effect.

3478. I should have thought it was inevitable, if I were a carrier of wheat or anything else, that a rising Bank Rate would make me want to sell. May I get back to your view of the relationship between an internal and external rise of Bank Rate? I think you said in answering Mr. Keynes that in your view the effect of a rise of Bank Rate exhausted itself in the open market rather than in industry. What happens is that the volume of credit in the open market tends to fall with the volume of credit generally. It does not tend to fall in industry?—I do not think I said that, did I?

3479. *Mr. Keynes*: I do not think you said that. I understood you to say that the effect fell on the short-term market first?—The short-term market first.

3480. *Mr. McKenna*: I want to have this perfectly clear. Am I right in understanding from you that you do not consider industry requires more credit unless the market borrows from you?—No, I do not say that; I think industry now requires a great deal of long credit subject to——

3481. That is, a particular borrower requires a long credit instead of a short credit. I am dealing now with the total quantity of money. You do not conceive that you need create a larger base for credit unless the market first borrows from you?—No, not exactly that; I said the indication I have that there is a need of credit comes from the market and the market is mainly the buffer between the Bank and——

3482. The indication to which you pay attention, may I put it that way?—One of the indications to which I pay most attention.

3483. What are the other indications to which you pay attention?—I cannot tell you in general terms as they may vary in different circumstances.

3484. I think we may take it that it is an indication to you that an increase of credit is desirable if the market borrows from you?—Not necessarily borrows.

3485. You look to the money market, and if they want to borrow you are satisfied that more credit is needed; if they do not want to borrow you are satisfied there is enough credit?—No, I do not go quite so far as that. That is one of the indications; I cannot say there are hard and fast facts which would guide me in all circumstances.

3486. I take it that the process of reasoning by which you would know would be that if the commercial banks were required to give more credit they would call in more money from the market, which would be consequently driven into the Bank of England?—I should feel it, though not necessarily by the receipt of applications for accommodation from the market.

3487. You would feel it before they came in?—That is what I have endeavoured to convey.

3488. You feel the market. My observation is that it is equally desirable to feel industry?—And we are endeavouring to do so.

3489. Do you have the same contact with industry—no, I think you told us earlier you did not?—Certainly not the same, but I am continually having more contact.

3490. *Mr. Keynes*: The object of international cooperation would be to relieve the international struggle for gold?—Largely to pursue a common monetary policy, and do away with the struggle for gold.

3491. How do you conceive that would help our internal position?—I think if it had not been for the struggle for gold over the last few years, that is to say, the flow of gold from one place to another, caused by whatever event it was, we would not have had anything like the difficulties in maintaining the exchanges that there have been.

3492. How would it help the internal situation if it were easier to maintain the exchanges?—I think the internal situation would have been much easier over the last few years if the Rate had been X per cent. instead of Y per cent., say 4 per cent. instead of 6 per cent.

3493. You mean there would have been less unemployment?—I think there would.

3494. *Professor Gregory*: When you have, for any reason at all, to sell securities, at the moment the gap in the total volume of funds is filled by the joint stock banks calling money in from the market; and you supply the brokers with the money that the joint stock banks have taken away from them. If for any reason Bank Rate is falling, or if for any reason you expand your earning assets, then the pressure on industry can be relieved without deflating the market; that is to say, the aggregate volume of money at the Bank goes up. Industry is only given what money it gets in a period of need through the process of putting pressure on the money market. The banks have to protect themselves in order to assist their customers by taking funds out of the money market which you replace?—Which I replace.

3495. Which you replace at a price?—Sometimes, yes; but there are other ways than by direct lending by which I may replace it. It frequently happens that there is an indication that money is needed; I act on it without waiting for the market to come to the Bank.

3496. Quite; I am not saying that the process is as mechanical as perhaps I have indicated, but if you do put Bank Rate up you induce the joint stock banks to take money out of the open market in order to keep their volume of deposits approximately what they were before?—I am not sure that I do. I do not believe it necessarily has that effect.

3497. It is not what you are doing. It is what the joint stock banks do?—I do not believe it necessarily has that effect.

3498. I thought that we were working out the theory of how the Bank Rate is supposed to operate under present conditions, but if I am told it does not work that way I am merely asking for an alternative explanation of how it does work. I always thought that when Bank Rate went up, the Bank sold securities, and the way the joint stock banks protected their customers was by drawing on the money market?—That is the effect if there is a sale of securities.

3499. *Mr. McKenna*: When they reduce credit we get our cash basis back by calling in money? (*Professor Gregory*): My point is, that if the Bank had not got to restrict credit in that way you could feed both the open market and your commercial customers. (*Mr. McKenna*): Yes. (*Professor Gregory*): The immediate pressure of Bank Rate is felt in the open market, merely because of the action of the joint stock banks in protecting their customers, consequently the pressure on industry is delayed through the action of the joint stock banks. (*Mr. Brand*): The Bank acts by the sale of securities. (*Professor Gregory*): If the Bank of England wants to make its rate effective it is obvious it must sell securities. It may attract a certain amount of foreign money, but not in such a way as to make its rate effective?—The rate frequently makes itself effective without action by the Bank.

3500. Under the conditions of practical English banking, when the joint stock banks do in fact try to protect their customers, repressive action by the Bank of England does not have an immediate deterrent influence on enterprise, because the general industry of the country does not lose as much money as theoretically it ought to lose?—I think that is right. What has been called the first line of defence with the various banks is the short money market and the first way they supply any needs for which they may be called is by calling from us through the market.

3501. Does it not follow that if you were able through international action to increase the volume of credit the influence on business would be an indirect one through stimulating new issues, attracting more bills, rather than directly on the volume of credit demanded by business?—I should think so.

3502. *Mr. McKenna*: In your judgment, if you increase the volume of credit by buying securities would there be any effect upon industry over a period?—Over a long period; not over a short period.

3503. Over a period of three or four weeks there would be an influence upon industry?—I should not have thought so.

3504. Over a long period, would you think so?—I should think so.

3505. Such influence would not begin to operate for three or four weeks?—I am not satisfied that it would begin to operate as soon as that.

3506. It would not operate in three or four weeks but in the long run you would get more employment if you increased the quantity of credit?—I am not at all sure that you would as a matter of course.

3507. You do not think there is any certain relation between fluctuations in the volume of credit and fluctuations in employment?—No, I am not sure that there is.

3508. You do not know?—There may or there may not be.

3509. *Mr. Bevin*: Rationalisation in industry will need the training of a type of mind in management of a very broad view that can take in many more factors than can the management of a single business?—A single unit, yes.

3510. Do you think the time has arrived when some kind of training for the purpose of taking a broader view of banking is not also necessary to link up the same kind of considerations over a wider field than has hitherto operated?—I think we are getting a training.

3511. I have listened to the evidence of the bankers to this Committee, and while industrialists have been urged to get out of their rut and to take a bigger view, I am bound to say that the very ugly feeling left in my mind is that so far as the City is concerned it is still within "the mile" in the main, that it does not go outside its own financial "mile" to consider these wider problems of industry, except perhaps one or two individuals like yourself who have been tackling the problem recently. I am wondering what is being done in the banking world in this matter, coincident with the inducement and the urge for industry to move beyond the single unit; how far it has received the consideration of the banking world and the financial world?—I cannot tell you. You are speaking generally, are you not?

3512 Generally, yes?—Are you thinking that the international knowledge of, and information given by, those who have come before has been inadequate; that is to say, they have not had due regard to the international position?

3513. *Mr. Bevin*: No, I am thinking of their industrial knowledge. (*Chairman*): I think that what Mr. Bevin really means is this. Industry is being urged to rationalise itself. Is it not time that the banks rationalised themselves? Is not that the point, Mr. Bevin? (*Mr. Bevin*): Yes; coupled with this, that if you are going to tackle an industry and rationalise it merely by amalgamating its units and that kind of thing, you may leave it in a worse condition than it was before. (*Chairman*): For the time being. (*Mr. Bevin*): It may permanently. To have a rationalised industry without fairly big minds running it who understand the objects of rationalisation, I think Mr. Norman will agree, may mean disaster. I have not seen that there have been any councils of war or indications in the banking world of what consideration they are going to give to the part they are to play when they get into this married state that has been referred to?—I want to understand what you are saying. The complaint against these bankers, of whom I am one, which I understand you to make—is it that their knowledge of international affairs is too little or that their knowledge of industrial affairs at home is too little, or is it that that knowledge is not sufficiently theoretical, not sufficiently technical, as you would have it?

3514. It is not sufficiently collective; each is moving in his own little circle as far as I have been able to see it. For instance, you have made a statement this morning that in approaching the problem of industry in the future you would look at it from the point of view of industry and not of the community. That is what you said, I think, that rationalisation of a whole industry must be the considered factor?—Yes.

3515. As I have listened to bankers, they still talk of their customers in the limited sphere of firms and not industry, and no consideration, collectively or technically, or from the point of view of national economics, appears to have been given to the wider concept of the position and the part they have to play in it?—They are coming to it. (*Mr. Bevin*): That is encouraging.

3516. *Mr. Tulloch*: I do not think Mr. Bevin is right in relation to the bankers not considering these matters from a broad point of view. In all those cases where the propositions are sufficiently large, there is a consortium of two or three or more banks. My information is that there is a great deal of discussion among bankers in regard to these larger propositions?—Yes, I think there is. May I say a word? Of course, you may complain of me, Mr. Bevin, or of those bankers you have seen, that the evidence they have given you comes through their nose and is not sufficiently technical or expert. Of course, that may in some measure be true; I plead guilty to it myself to some extent, and it is a curious thing, the extent to which many of those who inhabit the City of London find difficulty in stating the reasons for the faith that is in them. Mr. Keynes must know that very well. (*Chairman*): Of course, I suppose even a trade union leader sometimes acts by faith. (*Mr. Bevin*): And finds that it has been misplaced.

3517. *Professor Gregory*: May I ask on a question of fact: At the beginning of your remarks you said that you did not think that existing legislation imposed any limit on your powers of action. Supposing your two Departments were amalgamated, you would have a larger reserve against your liabilities, do you not think that would mean in practice that a wider range of action was possible for the Bank?—I do not think so.

Chairman: It is ten minutes to one; the Governor has been with us for two hours; I think we should release him on this occasion, but only to ask him to come back later on. We have much enjoyed and benefited by our discussion this morning. We have raised a good many topics—I do not say we have settled them. You will be provided with a shorthand note of the proceedings, Mr. Norman, for your revisal. Thank you, Mr. Norman.

(*The Witness withdrew.*)

(*Adjourned till to-morrow, Thursday, the 27th March*, 1930, *at* 4.30 *p.m.*)

NINETEENTH DAY.

Thursday, 27th March, 1930.

PRESENT:

The Rt. Hon. LORD MACMILLAN, *Chairman.*

Mr. ERNEST BEVIN.
The Rt. Hon. LORD BRADBURY, G.C.B.
The Hon. R. H. BRAND, C.M.G.
Mr. J. M. KEYNES, C. B.
Mr. LENNOX B. LEE.
Mr. CECIL LUBBOCK.
The Rt. Hon. REGINALD McKENNA.
Mr. J. T. WALTON NEWBOLD.
Sir WALTER RAINE.
Mr. J. FRATER TAYLOR.

Sir FREDERICK LEITH-ROSS, K.C.M.G., C.B.
Mr. G. ISMAY, *Secretary.*

Colonel Sir GEORGE L. COURTHOPE, Bart., M.C., M.P., and Mr. C. DAMPIER-WHETHAM, F.R.S., representing the Central Landowners' Association, called and examined.

STATEMENT OF EVIDENCE SUBMITTED BY THE CENTRAL LANDOWNERS' ASSOCIATION.

1. The three usual partners in the English system of agricultural production—the landowner, the farmer and the labourer—are all concerned in the prosperity of agriculture. Sometimes, indeed, their functions overlap; an owner may farm his own land, and a farmer may carry on part of the manual labour on his holding. But, even when the functions are separate, the custom of friendly remission or reduction of rent to meet hard times, and the legal power of appealing to arbitration in the few cases where such custom fails, make the landowner feel a depression almost as quickly as the farmer. Sixty per cent. of the members of the Central Landowners' Association own less than 250 acres each, and, of these, a majority are farmer-owners. The Association represents all kinds of rural landowners, and may fairly ask to be heard when banking, finance and credit, on which the success of agriculture so largely depends, are under discussion.

2. We suppose that the chief work of the Committee will be to study the broad effects of banking, finance and credit on monetary values, effects which so intimately concern all productive industry, including agriculture. We, therefore, desire firstly and chiefly to contribute to the evidence on this subject which will be placed before the Committee.

3. It is now agreed that the general level of prices, which shows the purchasing power of money, depends on the amount of business to be done on the one hand, and on the volume and velocity of circulation of currency and credit on the other. While changes in either direction in the value of money, as measured by the goods and services it will buy, bring evils to sections of the community, it is clear that productive industry suffers specially acutely from a falling price level, when the fall is brought about, not by improvement in the arts of production, but by a monetary deficiency in purchasing power. Not only do stocks depreciate during the time consumed in manufacture and marketing, but taxes, interest on loans, and other fixed charges become a steadily increasing burden.

4. These inferences are confirmed by the history of the last hundred years. When currency and credit have expanded with the development of new goldfields, prices have risen and productive industry, including agriculture, has flourished. When the production of gold has been insufficient to meet the increasing demands, as in the years 1875 to 1896, prices have fallen and agriculture has been depressed in all countries, save those in which money was not based on gold.*

5. These evils have been especially marked since the beginning of the deflationary process which followed the post-war boom, and culminated (but did not cease) with the return to the gold-standard in 1925.† They have been intensified by the fact that most other countries have had their power of cheap production increased by the converse process. Their currencies have depreciated, and, even when their money has been stabilised in terms of gold, it has usually been at a lower gold-value than before the war.

6. Some have argued that these difficulties are temporary, and must now have worked themselves out. In reply, we may make two points. Firstly, although the value of the pound sterling in terms of gold and dollars ceased to rise in 1925, yet, owing to the increasing international competition for gold reserves, its value in terms of goods and services is still rising, *i.e.*, the average price level of wholesale commodities is still falling. Secondly, owing to the mal-adjustment between costs and prices in the sheltered and unsheltered industries, many of the evils of falling prices are perpetuated, even when that fall has slackened or ceased.

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* Report of Committee on the Stabilisation of Prices, Ministry of Agriculture, Economic Series No. 2, 1925, p. 83; see also C. Dampier-Whetham, Politics and the Land, Cambridge, 1927, p. 74.

† R. R. Enfield, The Agricultural Crisis, London, 1924; see also Politics and the Land, p. 80.

7. In old days, profits, rates of interest and wages would have been brought down by competition, intensified by deflation, in rough equality in all trades. Indeed, such a process of reduction in prices was clearly set forth in 1919 in the Report of Lord Cunliffe's Committee, on which was based the policy of returning to the pre-war gold standard. Yet no precautions were taken to see that it worked effectually. At present, rates of interest depend on international happenings, while, in sheltered industries, exploiting a naturally protected market, profits are often kept up by agreement, open or tacit, and nominal wages by the resistance of trade unions to any reduction. Moreover, Parliament, which accepted the Cunliffe policy of bringing down prices by a "slackening of employment," has passed Unemployment Insurance Acts in which precautions were taken to prevent unemployment from lowering nominal wages.

8. Thus, by a combination of causes, economic adjustment has been made impossible. Costs and prices in the sheltered industries are maintained artificially, and an additional burden imposed on the unsheltered trades, which are compelled to use the high-priced products of the sheltered industries in their low-priced struggle with world-competition.[*] The average wholesale prices of some important unsheltered commodities range from 20 to 50 per cent. above those in 1913, while sheltered commodities may be higher than in 1913 by 100 per cent.[†] Most sheltered wages have risen by 100 per cent., while unsheltered have gained only about 70 per cent.[‡] Moreover, rates of payment for industrial insurance and social services, many of which were fixed at times of higher prices, have not been reduced to meet the rise in the value of money, and thus their burden on industry has increased.[§] The combined effects of all these obstacles to re-adjustment is that depression in the unsheltered trades, and unemployment in those working for export, instead of passing as the economic structure slowly adapted itself to a lower price level after deflation, have been made permanent. The old rough and ready way of meeting deflation, which brought prices and costs down to the new value of money, has been destroyed, and nothing has been put in its place. The sheltered trades make profits and pay good wages partly at the expense of a high cost of living for all, and of depression, low wages and unemployment in trades working for world-markets.[§]

9. Owing to its slow turnover, its long economic lag, agriculture suffers exceptionally severely from a falling price level.[||] A farmer, especially an arable farmer, must prepare his land at a heavy cost in labour many months before he can harvest and sell his crops, or make ready his animal produce. He may incur his costs at a high level of prices, and have to take his chance of a market at a low level. Thus a period of falling prices, of a rising value of money, while bad for all productive industry, is especially bad for agriculture. Moreover, owing to a combination of causes, more men farm land in various countries than the economic returns warrant. Hence there tends to be an excess of food, and agricultural prices are low even compared with those of other commodities having a world-market; there is less margin of prosperity to withstand additional misfortune.

10. Farmers, like some manufacturers, have to buy part of their supplies at sheltered prices and sometimes at retail rates. Except for artificial fertilisers, which are cheap owing to increased and improved production, practically all a farmer's purchases are made at high relative prices, while present agricultural wages, with an index number ranging from 65 to 75, though low compared with those of some sheltered industries, make the cost of labour to the farmer about double that of pre-war years, when changes in hours of work are brought into account.

11. Again, those farmers who own the land they cultivate, equally with owners who let their land, have to pay the present very high cost of building repairs. This is about double its pre-war figure, though other outgoings may have increased less. An examination of the accounts of six estates, scattered about England, led one of us in 1926 to estimate that nominal rents were then on the average about 20 per cent. above pre-war figures, while outgoings, about 33 per cent. of the gross rental before the war, were 47 per cent. of the increased rentals in 1926.[*] During the last three years rents have fallen, and preliminary results seem to show that on the average they are about equal to pre-war figures. Probably outgoings have decreased little, if at all, and are now about 55 per cent. of the gross rents. Thus, while before the war a landowner on the average might expect to net about 67 per cent. of his gross rents, at present he is lucky to get 45 per cent., while increased taxation takes from him a far higher proportion of what is left. On the poorer qualities of arable land, the returns are much smaller than these average results indicate. Moreover, the purchasing power of the net money received is of course less. The cost of living for agriculturists, whether landowners, farmers or labourers, has been estimated at about 16 per cent. below the Board of Trade index. Thus £45 in £100 of gross income is only equivalent to about 30 pre-war pounds, to compare with £67 in 1913, and we see that the present real value of rural landowners' net receipts from rents, i.e., their purchasing power, is, on the average, rather less than half its pre-war real value, while increased taxation reduces it still further. Some estates show better results, but, on the other hand, the net receipts from other are much worse.

12. It is therefore clear that the effect of the monetary changes since 1914 has been to deprive rural landowners on the average of about half their real incomes, quite irrespective of the increase in taxation. In this way they are bearing a large share of the burden of agricultural depression, and those who have no other resources find it difficult to keep up the customary high standard of English farm buildings and equipment. This has been used as an argument that, since landowners can no longer perform their economic functions, their land should be nationalised. In most cases, it is the landowner's private expenditure, and not the equipment of his land, which has been curtailed. But, even if sometimes the land suffers, the difficulties of the rural landowner are due to no fault of his own, but to a monetary and economic policy for which all political parties are responsible.

13. For agriculture to regain a healthy state, average profits of farming, average wages for labour, and average rents of agricultural land must be brought into conformity with prices and costs in the sheltered industries, from which agriculturists have to buy. This is but one example of the changes which we regard as necessary if the present depression and unemployment in many of the unsheltered industries, and especially those working for export, are to be overcome. We hold that the chief cause of the troubles from which the nation is suffering is the dislocation between the external and internal level of prices. The only effective remedy is to raise the one side or lower the other. The influence of our output in determining world-prices is but fractional; it is therefore clear that, if we are to recover our competitive power for export, the prices of sheltered goods and services must be reduced. Since a reduction in nominal profits, salaries and wages in sheltered trades would cause a decrease in the cost of living, the real values of the incomes so derived would fall less than the nominal values.

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[*] Professor Henry Clay, the Post-war Unemployment Problem, London, 1929, p. 96.

[†] As examples—In 1927, the index numbers (increases over 1913) were: cereals, 52·7; meat and fish, 37·5; iron and steel, 19·9; other metals and minerals (including coal) 20·9; (Board of Trade Journal, 12th Jan., 1928). On the other hand, the retail prices of clothing ranged from 110 to 120 (Ministry of Labour Gazette, Jan. 1928), and building houses, which before the war would have cost £200 to £250, cost £412 to £476 in 1927.

[‡] See Professor Bowley, Royal Economic Society Memorandum No. 12, 1929; average earnings in a normal week as percentage increases above 1913 figures; printing 147; building 95; public utility services 105. On the other hand, we have—coal, 63; agriculture, 68; engineering 78·5; as the percentage increases in earnings in unsheltered trades.

[§] See Professor Henry Clay, *loc. cit.*

[||] Politics and the Land, p. 65.

[*] Politics and the Land, pp. 106–114.

14. But, even when the present mal-adjustment in prices is cured, a further problem remains. To protect the nation against a recurrence of the evils from which we suffer, steps must be taken to prevent further deflation, due to the growing international competition for limited, and possibly diminishing, new supplies of gold. Some of the proposals for action by the Bank of England which have been made would, if carried out, result at first in a rise of internal prices only, and would thus intensify our present troubles. We have no belief in such facile remedies. Accepting the necessity for a gold standard, it seems probable that international agreement to economise gold is the simplest (perchance the only) method of securing a stable level in general prices. However that may be, we contend that only when the present dislocation of prices has been cured, and the general price-level stabilised for the future, will it be possible for the whole trade of the country to recover its prosperity and supply the means for a rising standard of life for all wage-earners, sheltered and unsheltered alike.

15. Probably the Committee will have had the same points impressed on them by the representatives of other unsheltered trades, for in this question the interests of agriculture and of industry manufacturing for export are identical. We hope that the Committee will find effective solutions for what we recognise to be most difficult problems.

16. We now wish to comment more briefly on other subjects which may be brought under consideration by the Committee.

17. As regards banking in its direct contact with farmers and landowners, we have little to say. We believe that the occasional complaints which are made about joint stock banks are unjustified, and we think that, as a general rule, those who manage the banks are fair-minded, considerate and even generous in their treatment of agriculturists. We welcome the relief given by the de-rating of productive industry, and expect that the Agricultural Credits Act will prove useful, at all events as regards long-term credit.

18. We are not sure whether the word "finance" in the Committee's terms of reference is meant to include taxation. If so, we desire to represent the special hardships inflicted on the agricultural community by the present heavy death-duties when they fall on landowners who have little or no other property. Of course direct taxation, whether of income or property, does not enter immediately into costs of production. But it does reduce the savings which are necessary for improvements in the equipment of industry, and thus ultimately it checks both the cheapening of industrial processes and the rise in profits and wages. Moreover, there are special points as regards rural land. An agricultural estate often forms a natural unit, and it is then impossible to sell part without depreciating the whole, while, to pay death duties by instalments, in the short term of years allowed, may absorb, in these days of heavy outgoings, most of or all the net income of the estate. Again, the duties are based on an estimate of what the land would fetch if sold farm by farm, with no allowance for the expenses of sale; therefore they are sometimes much higher than the capital value of the net income obtained. The duties fall most unfairly on different families owing to the changes and chances of mortal life; they tend to ruin landowning families or impoverish the equipment of their land at incalculable intervals, and they leave a sense of bitter injustice—the mark of a bad tax. If it be necessary to maintain the duties in general, we suggest that it would be more equitable to charge estate duties on agricultural land on the capitalised value of the net income till the land is sold, when the balance might become payable if the price then obtained was in excess of that assumed.

19. In conclusion, we submit that the English system of rural economy possesses certain economic and social advantages which are often overlooked. The so-called "amenity value" of land, the effects of which have sometimes been criticised, has secured for most tenant-farmers the use of their land and buildings at a cheap rate of interest, and a standard of equipment much higher than the economic state of the industry could otherwise provide. Indeed agricultural rents are usually little more than a moderate interest on the cost of buildings and other equipment, with nothing for the land itself. The amenities and the duties of landowning together keep in the country large numbers of people who in different circumstances might live in towns. The break-down of the system, of which there is considerable danger, has sometimes been regarded as inevitable and desirable. We, on the other hand, hold that it would lead to further rural depopulation, and prove a national loss both socially and economically. We hold that the Committee, if it can find means of reviving the prosperity of agriculture among other productive industries, may also indirectly do good in helping to preserve a system which till now has proved its adaptability to changing times, and, in our opinion, is still well-suited to the needs of the English countryside.

George L. Courthope,
President.

C. Dampier-Whetham.

3518. *Chairman*: This afternoon, Gentlemen, we have the advantage of the assistance of Sir George Courthope, who is President of the Central Landowners' Association, and Mr. Dampier-Whetham, who is, I think, a member of the Association. I believe Mr. Gardiner, the Secretary, is with you?—(*Sir George Courthope*): The Secretary of the Association; yes, Sir.

3519. We have received your memorandum, Sir George, and we have all read it with great interest. If I may say so, I think the diagnosis of the position is very clear. Our province, as you know, is to make recommendations for the improvement of the present position if we can. I think, like so many others, you have found that the difficulties of suggesting remedies are very great. The ills are very obvious, but the remedies are less obvious.—I do not say less obvious, but most difficult to attain.

3520. That may be. I think that in the view of your Association the troubles of the present moment in agriculture are to some extent attributable to money causes.—Yes.

3521. I wonder if, in amplification of your statement, you would describe in your own fashion how you think you have been hit?—We think, Sir, that the general effect of the rapid deflation has fallen with peculiar severity upon the owners, particularly the owner-occupiers of rural land, because they, think, to a greater extent than any other body of producers, are met with exclusively national costs of production, many of them arbitrarily fixed by statute or regulation, others imposed by sheltered industries, and yet they are exposed to the extreme competition of international selling prices. Perhaps I ought to say at this moment that the Memorandum which you are considering is the work of my colleague, Mr. Dampier-Whetham. He is much better qualified than I am to deal with the points in it. I, perhaps, can claim some practical experience as a landowner who farms considerably and has access to, of course, all the information of a large organisation.

3522. Quite.—But I think Mr. Dampier-Whetham would not quarrel with the answer I have just given. —(*Mr. Dampier-Whetham*): No, Sir, I quite agree with what Sir George has said.

3523. There is, of course, the technical aspect of it, Sir George, which is, perhaps, in some respects rather recondite, and then there is the practical experience of those persons who, while perhaps unable to put it into scientific language, certainly know what they are suffering. Is it because of the specially unprotected position of agriculture that you think the monetary position has hit you worse? —(*Sir George Courthope*): I think to some extent it is. Everything we have to do in order to produce our commodities in an up-to-date form is costing more and more, and the service we have to buy from others, the buildings we have to erect, are all governed not by international competition but by internal, national, and sometimes statutory considerations, all of which tend to increase them.

3524. Of course, if one takes a very simple example, transport is a matter which concerns the farmer very much indeed and transport is a sheltered industry?—Inland transport is a sheltered industry and international transport a very highly competitive one.

3525. Therefore, unsheltered industries have to a very large extent to carry on their backs the sheltered industries?—To a very large extent, and I think that is peculiarly true of agriculture. The tendency to-day is for the farmer to become increasingly an occupying owner. Those considerations which we have been mentioning affect both the owner and the occupier; when you get the two attributes combined in the one individual the effect has been disastrous, and the net result is shown in a very alarming diminution of the proportion of gross revenue which is actually received.

3526. You give some figures of that?—Yes, and that gross figure has not risen; the gross itself is no higher to-day than it was before the War, and the proportion that remains in our pockets is infinitely less, even before we think of Income Tax or Supertax. On that may I say this; I think it might interest you and the Committee. When this memorandum was presented to the Council of the Central Landowners' Association, which is a very largely attended body and consists of representative men from every county in the country—large landowners, leading farmers, and so on—there was a tendency to challenge the figures in Mr. Dampier-Whetham's memorandum which suggests that 45 per cent. may be taken as a fair relation of net to gross income of a rural estate. There was a general tendency amongst members of my Council to say that, in fact, they received very much less than 45 per cent. I could give you a number of estates where they get nothing, but we have taken a good deal of trouble to get returns, so far as they can be got, from estates up to the end of 1929. Of course, in many estates the accounts are not yet complete or audited, but we have got returns from approximately a quarter of a million acres spread all over England and Wales, and they absolutely confirm the figure which Mr. Dampier-Whetham had arrived at by an entirely different method of selection. We have got all we could and averaged them; he made selections here and there that he thought were representative estates, large and small.

3527. It shows that the samples were well drawn? —It shows the samples were well drawn. (*Mr. Dampier-Whetham*): I have only one thing to add, Sir. When Sir George said that the rentals were the same now as before the War, I think one ought to add that some few years ago they were rather higher, but they have fallen again and, as nearly as I can estimate now, average rentals are about the same in nominal pounds as before the War.

3528. *Mr. Brand*: On arable land too?—No; they would be less on the arable lands and rather more on the grass lands, but, averaging the country as a whole, I should say they are, as near as I can estimate, about the same now in nominal figures as before the War.

3529. *Chairman*: Of course, the result of that diminution of profit in farming has very serious consequences. It tells ultimately in equipment and everything else, and the fact that you are exposed to taxation in various forms is another of the difficulties you have to contend with?—(*Sir George Courthope*): Yes. I think, from whatever angle one regards the position, one finds the hardships of the present day fall with almost peculiar severity, and it has a very serious effect, more serious perhaps from the national point of view than from the point of view of the individual. Depression and shortage of working capital and considerations of that kind have, as their first effect, the skimping of such matters as keeping drains open, hedging and ditching, the maintenance of roads and so on, and the decline in capital value and in the productive value of agricultural land is extremely rapid.

3530. That pressure is cumulative?—It is cumulative and it is a very slow thing to remedy.

3531. You point out that the return to the gold standard bore especially heavily on agriculture and you give your reasons in explanation of that, and you indicate to us the converging causes that have been so detrimental to the agricultural interests. When you come to deal with the remedy you say in paragraph **13**, "We hold that the chief cause of the troubles from which the nation is suffering"—and I suppose I may take it agriculture in particular— "is the dislocation between the external and internal level of prices". Now, I wish you would expand that a little Mr. Dampier-Whetham?— (*Mr. Dampier-Whetham*): Well, Sir, I think the real troubles from which agriculture is now suffering are not peculiar to agriculture; they are the same as affect a good many of the other producing industries of the country. The price level fell for a good many years. First of all, the farmer specially feels that fall, while it is going on, because his turnover is very slow, his economic lag is long. He has to incur his costs a long while before he receives anything for his produce. Secondly, after the worst of the fall was finished—I use the word "fall" to cover the whole thing, from the beginning up to now, though, of course, one could divide it into, perhaps, three periods—even when the worst of the fall was over, it left a certain dislocation, as Sir George has said, between the sheltered and the unsheltered trades. Whereas in the old days prices and costs in the sheltered trades would have come down, perhaps more slowly, but still in the end would have come down into more or less conformity with the others, owing to certain causes which we have outlined in our memorandum, that does not occur now, and, as we have tried to explain, the fact that sheltered costs remain high falls with peculiar stress upon farmers and landowners. There is just one word more I should like to add to what Sir George has said about rents. It does not seem to be usually understood even now that the average rents of agricultural land are no more than is required to pay a certain modest interest on the cost of equipping the land, with nothing at all for the land itself. That is, of course, not true of very rich land, but, if you average land over the country it is roughly true, indeed was roughly true, even before the War. Of course, now that the average rents of agricultural land are in even smaller proportion to costs and outgoings, they are less than interest on the cost of equipping the land, with nothing at all for the land itself. With low rents there is no margin, and when times become bad the landowner, and especially the farming landowner, or the owner-occupier, suffers very severely.

3532. To some extent, though, I suppose natural causes must be at work as well as monetary causes; if you have a very heavy harvest in Canada, I suppose it affects the grain position at home, does it not?—Of course.

3533. These causes—what we may call the natural fluctuations—are not dealt with in your paper?—My own view is that those causes, although, of course, effective, are very much less important than the monetary causes. They would average out over a term of years. Doubtless it is true that the production of agricultural produce is rather more than the economic returns warrant, because farming is not only a trade, it is also a way of life, and a good many folks farm either because it is a pleasant thing to do, or because they have no other industry to turn to; so that, I think, possibly the production of agricultural produce is always rather more than the economic returns warrant. One would expect, and I think it is true, that the price of agricultural produce on the average is rather below what it ought to be relatively to other things.

3534. You are suffering from over-production, is that it?—A little bit all the time.

3535. *Mr. McKenna*: That is always true, is it not?—That is always true.

3536. The natural causes also were always true?—Always true. The monetary causes I regard as much more important than anything else, when we are considering the present depression.—(*Sir George Courthope*): At the moment, I do not think it is an exaggeration to say that there is an over-production of all the principal agricultural commodities all the world over. I think you would agree with that. (*Mr. Dampier-Whetham*): Yes; I think that is so.

3537. *Chairman*: It is a world over-production, but not a national over-production, I take it?—(*Sir George Courthope*): No, a world over-production. There is a national over-production at the present moment in one or two things, notably milk. That has been aggravated by the depression driving farmers from other forms of agriculture, from arable agriculture principally, into dairy farming, which, a few years ago, was paying well, and it is aggravated by the very large quantity of manufactured milk products which come into this country from abroad, condensed skimmed milk, milk powders, and things of that kind which are produced under conditions with which we cannot compete.

3538. You have competition from Europe, in particular?—Very severe; in dairying, in particular, it is impossible for any dairy farmer to keep up his contract deliveries day by day, all the year round, without having a large surplus at a particular time of the year, and every dairy farmer has the surplus at approximately the same time; he cannot help it; it is a provision of nature; and we have not got the facilities for the sale of our surplus products at a reasonable price for manufacturing purposes because of the very extensive imports of these other products.

3539. You cannot hold up your products in the same way?—You cannot hold up liquid milk; no. It is true of other things, but it is peculiarly true of milk.

3540. *Mr. Bevin*: Has there been any attempt in the co-operative sense in the agricultural world, as in the industrial world, to see whether that process can be developed in this country?—Yes.

3541. To what extent?—I think it started two or three years ago, but it came to an end last year; the National Farmers' Union organised a very extensive scheme, in the North of England, for dealing with the surplus of milk products, and they were endeavouring to compete with the imports of dried milk, canned milk, condensed milk, and things of that kind, but it came to an end with a very heavy loss.

3542. *Chairman*: How was that?—Honestly, I do not think we can compete without assistance of some kind, or protection of some kind, with the conditions prevailing in the countries which send us these products.

3543. Was it the cost of production that killed it?—Yes. This stuff is coming in and is marketed at a figure below the cost of production of the competing article in this country. If you take the case of the condensed skimmed milk, it is coming very largely from countries where its sale for human consumption is said to be prohibited. We allow it here, although we put on the tins "Unfit for babies." It is a surplus product coming from countries which will not consume it themselves.

3544. And is, therefore, sold cheap, I suppose?—It is sold cheap.

3545. *Mr. Bevin*: Where, mainly?—You will find it in a very large proportion of the cottages and artisans' dwellings of this country.

3546. Where does it come from, mainly?—Mainly from Denmark, Switzerland, a certain amount from Holland, some, I believe, from Belgium. It is machine skimmed milk, sweetened and condensed. We have not dealt with these matters in our written statement. It is getting on rather dangerous political ground.

3547. *Chairman*: Do not be in the least afraid.—I do think, concentrating our thoughts for the moment on the dairying industry, that we shall never deal successfully with the whole milk problem here until we put our dairy farmers, by protection or by subsidy or by some other method, in a position to compete with the imports of the manufactured dairy products. Now, the butter that comes in from all over the world is in many cases subsidised; the New Zealand butter is very heavily subsidised by the New Zealand Government, but I do not think we feel the butter competition so much as we feel the competition of those articles which compete with liquid milk.

3548. *Mr. Lubbock*: Monetary causes hardly come in there?—No, not in this particular, so we do not deal with those causes, we did not draw the memorandum to explain the agricultural depression.

3549. *Chairman*: I am afraid I am responsible for drawing you in that direction. It is very interesting.—I hope you will go on drawing me if it is not wasting your time.

3550. It is extremely interesting. Referring to the monetary aspect of it I want to see exactly how you have been hit. I can quite see that the lowering of the level of prices has affected you very much indeed, and the cost of production not having fallen, you are again hit by your competitors who produce at a lower cost the commodities in which you deal. So far as concerns ordinary banking facilities, I understand the agricultural industry has no particular complaint to make?—Oh, very much so.

3551. Oh, it has?—Very much so. I should very much like, if I may, to say something with regard to short term credit.

3552. Please do so without any reserve. That is just one of the things we should like to hear you on.—May I take as my text the Agricultural Credits Act of 1928? Part I, the long-term credit, which primarily affects the farmer in his capacity as owner, I think, is working well on the whole. What is going to happen when the present funds run out is not for me to guess. I daresay the present is a favourable moment for supplementing the funds of the

Agricultural Mortgage Corporation. But the short-term credit is not working at all well from the point of view of the farmer and farmer-owner. That, primarily, of course, affects him in his capacity as occupier.

3553. You mean the seasonal facilities?—The seasonal facilities. Part II of the Agricultural Credits Act created a statutory form of agricultural charge, which is a very convenient method of enabling the occupier to give as security his flocks and herds and tenant right and other matters of that kind. But while it created the form of security it did nothing whatever to increase the fund available for short term loans to the farmer or anybody else. There, again, I think agriculture is perhaps hit in a peculiar way because I am told—you can correct me—that the banks like, so far as they can, to relate their rural loans to their rural deposits. (*Mr. McKenna indicated dissent.*) You do not do that. Several banks have told me that they have tried to, but cannot always manage it. But it does not spoil my argument. So far as rural deposits are concerned they are at their lowest ebb at the very time when there is the greatest need for short-term credit. Many landowners are able to make deposits in November when they have got their rents in; many farmers can make deposits during the winter when they have sold their harvest. That all goes out again in the spring or early summer when their next crop is coming to production. For the want of something more exact I have taken the figures of the agricultural output of England and Wales for 1925, drawn up by the Ministry of Agriculture under the Census of Production Act. According to that the farmers of the country, the occupiers, have a working capital employed in their business of £365,000,000 and their annual production of new wealth—I am speaking of England and Wales alone—considerably exceeds £200,000,000. That is the fall of lambs, the calves, the crops of the year, and as far as the crops are concerned they have all grown to marketable maturity by autumn. That does not include what I may call the day-to-day production, the commodities which are produced to-day and consumed to-morrow, such as milk and eggs, but it does include all the ordinary arable crops, the root crops, the sugar crops and the flocks and herds. And yet that new production of over £200,000,000 a year does not give rise to a single penny of increase of the fund out of which loans can be made by the banks to their rural customers. In fact, as the rural customers have, during the same period, been withdrawing their deposits, probably that fund has tended to decrease, even if it is not definitely related, as I thought it was in some cases, to rural deposits.

I may be very stupid from the point of view of the economists, perhaps a heretic, but I cannot see why the production of new wealth should not give rise to an increase of the fund from which the loans can be made, why it should not raise the maximum measure of loans given on short term for production; in other words, why one should not break away, in the case of loans for the production of new wealth, from the restrictive relation to deposits or to gold. It seems to me that the instrument devised under Part II of the Agricultural Credits Act, which we call an agricultural charge, which has by statute a very limited freedom of movement—it can only be given by an individual to his own banker, it cannot go beyond the bankers and it has no possibility of circulation externally, because it is limited to this country—I cannot see why those instruments which are an effective security on the flocks and herds which have been produced during the year should not be just as good as gold as a justification for credit.

3554. *Mr. McKenna*: If I understand you aright your view is that as production increases so credit should increase?—Yes.

3555. Your argument being, I suppose, that if you increase the quantity of production and do not increase the quantity of credit or money you must have falling prices?—Exactly.

3556. I agree with you.—My experience, and not only my personal experience—for I receive communications in my capacity as President of the Landowners' Association and in other capacities from a very large number of farmers and farming bodies—is that although this agricultural charge is a very convenient form it has not in fact increased the short-term credit facilities which farmers get at all.

3557. *Mr. Lubbock*: Have farmers asked for loans upon that security and been refused?—Oh, by the thousand.

3558. *Chairman*: Then are farmers suffering from a shortage of short-term credit?—They are suffering acutely.

3559. The reason I put my question in that form was because of a sentence in paragraph 17 of your memorandum, "As regards banking in its direct contact with farmers and landowners, we have little to say. We believe that the occasional complaints which are made about joint stock banks are unjustified, and we think that, as a general rule, those who manage the banks are fair-minded, considerate and even generous in their treatment of agriculturists." I understand you to mean that within the limits of their existing powers the banks are doing their best?—Exactly.

3560. But it does not mean that you are content with the credit facilities that do exist?—No, I complain of the limitations which control the banks under the present system. I am not complaining of the lack of consideration of the banks.

3561. *Mr. Keynes*: May it not be that under present conditions a great many farmers are not good for the money?—There are many cases where they are not good for the money, but there are thousands of cases where they cannot get it.

3562. *Mr. Brand*: Cases in which a farmer can see his way to make a profit and can give good security, and yet cannot get a loan?—Yes. May I give an example from personal experience? I am farming on a large scale, and for other reasons not connected with my farming my credit is good for a reasonable figure. The day the Act came into force I went to the local manager of the bank where I keep my estate account, where there is an annual turnover of something like £30,000, and I said, "I want £25,000 on agricultural charge on my flocks and herds." I have got three pedigree herds and a couple of flocks and am producing on quite a large scale. At the moment the local manager had not heard of the Agricultural Credits Act but, of course, I supplied him with that. The reference was made to headquarters and in due course headquarters brought up the "55 per cent. of deposits" argument. They said they were up to their limit. Sorry, it was not lack of security or anything like that, but they had already got 61 per cent. out and it was a very inconvenient time to be pressed for any further loan. Of course, if I wanted £2,000 or £3,000 they would arrange it for me.

3563. *Chairman*: You did not get the loan?—I did not get it. As a matter of fact I did not mind. I was not actually in need of the accommodation.

3564. You might have been?—I might have been. I wanted to test the prompt efficiency of the Agricultural Credits Act. I have not given an agricultural charge at all, but a great many people, substantial men, have come to me and said, "Can you not do something to help us out; we are told by our bankers that they do not want to lend more money," and all sorts of little excuses are made also. There is a clause in the Act which enables a banker to refuse credit under Part II of the Act to a client whose account was overdrawn at a stated date.

3565. *Mr. Brand*: Do you think the reason is that a bank does not know in these days whether the farmer will make profits, and the last thing it wants to do is to have to sell up the farmer and his flocks?—I do not think it should matter in the least whether the farmer makes a profit or a loss. A man has a fall of 500 lambs. He has to look after them, bring them up in the summer and carry on his other agricultural operations. However much loss he may incur in the year that fall of lambs is growing into money, and throughout the year is good security for a constantly increasing short-term loan, which under Part II of the Agricultural Credits Act is bound to be repaid when that flock is sold. It does not matter in the least whether the farmer is making a profit or a loss from the point of view of security, nor can the security be jeopardised by borrowings from other sources, because the Act gives abundant and effective precautions against that. The real trouble, I am quite convinced, is not the lack of security or the doubtfulness of the profit the man may make, but the limits imposed by our existing system upon the fund from which the loans can be made.

3566. You would like to make these charges into a form of certificate and then circulate it?—That is right. I cannot see, if you are producing £200,000,000 or £250,000,000 of definitely new wealth on the farms of England and Wales every year, why that should not give rise to an increase of £100,000,000, £150,000,000 or £180,000,000 in the aggregate of short term loans available to people who are farming and producing this wealth. No doubt the argument could be applied to other productive industries; I am only concerned with the one I know something about.

3567. *Chairman*: Your application for a loan was a genuine one which was actually submitted to headquarters by the local bank manager?—Yes. I had deliberately asked for what I estimated to be the maximum amount that the bank could lend. I knew if I asked for £1,000 I should get it from the local manager without any trouble at all, or perhaps £5,000 or £10,000. I asked for a figure which I knew he would have to refer to headquarters. It was turned down.

3568. From the practical point of view, Sir George, how do you think that situation should be met? You say there is quite a good fund of security there which is available for the creation of additional credit, which somehow or other is not given the credit facilities which could be reasonably carried. Is that your point?—Yes.

3569. And the Statute in operation does not work as you would like it to work?—No, the Statute would only be fully effective if it increased the aggregate amount available every summer for the farmers, instead of merely transferring the credit obtainable from some other source, perhaps a less desirable one, to the banks. May I say one word on that? The farmers themselves certainly, and probably everyone else in the country, are quite unaware of the enormously high rates of interest which are in fact paid by farmers for their credit. It is very difficult to calculate them exactly, but I can give you one or two perhaps extreme examples which illustrate it. There is a very common practice amongst farmers who buy store cattle for grazing and subsequent sale. They buy them from Irish drovers and others who bring them round, and the common practice is that whatever the market price at the moment that is agreed, the price of each animal goes up £1 a month. The farmer thinks it is reasonable. He may be buying an Irish store beast for £12 and he does not realise in the least that he is paying 100 per cent. interest for his credit. He thinks, "As soon as I have threshed out my wheat I shall have some money in. I shall be able to pay for this; I do not mind a pound a month," but it may be a number of months before he succeeds in paying for those animals, and he is in fact paying a very high rate of interest.

3570. *Sir Walter Raine*: Would you explain that? I do not quite follow to whom the interest is paid?—The Irish drover comes along with a drove of Irish store cattle. He goes to the local agricultural market where they are sold; the transactions are usually not by auction; they are generally deals in the market yard. The farmer buys 20 head of store cattle at a price, it may be, £12, £14, £15 a head.

3571. He does not pay the drover for them?—He has not got the cash to pay for them. If money were always available directly the security was there he would go to the bank and get money at 5½ per cent. or 6 per cent. and pay for them. It is a bad system that has grown up in practice. Whether it is £12, £15 or £18 a head which he agrees for his cattle the price per head mounts up by £1 per month until he pays.

3572. *Chairman*: If he delays payment for three months he will pay £3 to the vendor?—That is right. Take another class of credit, perhaps the commonest of all. The farmer is buying his manures, seed and other requirements from an agricultural merchant. He has not got the cash to pay for them; he does not quite know when he is going to get it, and he pays interest in two forms without realising it—one is in an excessive price, for in many cases the price varies enormously according to the expectation of the vendor as to when he is likely to be paid. I always make a practice in all my agricultural operations of paying cash. I do not mind owing my bank money and I do not mind owing the State money, but I never owe anybody else money. My agricultural merchant knows he will always be paid at the end of the week or the end of the month according to the custom, whatever I am buying, and I can buy much cheaper than other farmers, who may keep the man waiting a year for his money. He will probably say he is only charging 4 or 5 per cent. interest, but he has put a very big interest in the price. Further, he says, "I will take a charge on your corn ricks" or some asset the farmer has got that is not yet realised, and he will take further interest by dictating the time when the commodity is to come into the market.

3573. *Mr. Bevin*: Is that very general?—Very general.

3574. *Chairman*: Those considerations do not seem to reflect on the monetary system. They seem rather to reflect on the farmer or his ability to meet the vendor in the gate. These are things which might be overcome by careful co-operation among the farmers to strengthen their position in dealing with manufacturers of fertilisers and so on. These are not really monetary questions, are they?—Perhaps not directly; but I am suggesting that one should do away with all these very undesirable forms of credit by making credit more readily available under Part II of the Agricultural Credits Act.

3575. You are suggesting that farmers are really driven to these unprofitable forms of credit, mainly by want of facilities under the present system?—Unquestionably.

3576. *Mr. Brand*: It is not always that, is it? I have been told that the farmer sometimes prefers to get his credit that way rather than that it should be known that he has given a charge to the bank?—That may be, but I do not think that applies to the more intelligent type of farmer. You will find some who are rather doubtful of their own solvency, and they hesitate to let anybody know they have borrowed.

3577. *Mr. Bevin*: To what extent do the farmers' organisations check it?—The farmers' organisations check it as far as they can.

3578. There are a good many farmers' buying organisations, for example, the Western organisation?—Co-operative organisations; they check it to some extent, but they all require, from the necessities of their situation, cash transactions. Very few of them are able to give more than two or three months' credit.

3579. *Mr. Keynes*: Are there not a great many farmers who are doubtful of their solvency?—Certainly.

3580. I think one has to distinguish between those troubles which are due to deficiency of credit and those which are due to deficiency of sound borrowers. By these various expedients the farmer can semi-secretly borrow to an extent that would not be reasonable for a bank to allow him to borrow?—I do not agree with you. He cannot borrow by those devices an anything like all the security which Part II of the Agricultural Credits Act has made available to the banker. Generally speaking, he can only borrow from his seed merchant to the extent of the value of the commodities he has bought from that merchant. None of those people, the agricultural tradesmen, will lend the farmer cash to pay wages.

3581. Might it not be that he would first of all borrow from the bank; he would then be in arrears with his rent up to the extent that his landlord would allow; he would then buy his seeds and manures on credit; and then he might find that the only way he could get store cattle would be from an Irish drover, and all that would mount up; there must be a great many farmers to-day who are not in the position to give security of the kind that the banker requires before he will lend more money?—But the banker has no business to require it. If the Agricultural Credits Act, Part II, is effective it does not matter to the banker in the least what the man has been doing with the rest of his borrowing and securities. He is producing 100 lambs, he is producing 50 quarters of wheat, which cannot have been charged to anybody else, because it has only just been produced, or is in process of being produced. That is good security for the banker, and what I am anxious to get at is the credit which the farmer must have, and does have to some extent; I want to get that at a reasonable rate of interest instead of under the exorbitant conditions which are imposed upon him to-day.

3582. *Mr. Bevin*: Supposing the credit were, as it were, placed behind the agricultural organisations so as to enable them to give longer credit, would not that in turn enforce co-operation among the farmers and produce better results than by lending it to individual farmers?—I doubt it. Of course, if you put large State funds behind the agricultural co-operative organisations you would enable them to give longer credit.

3583. Would not that have the advantage of rationalised buying?—The experience which the Treasury have had in supporting the Agricultural Organisation Society and the co-operative bodies has not been a very happy one. And I do not think in any case that co-operative credit can ever effectively take the place of credit to the individual based upon the security which that individual alone can give. That is my opinion. I may be wrong.

3584. *Chairman*: I am sorry the time is passing, and we have another witness, but I would like in conclusion to revert to paragraph **13**, part of which I have already quoted. After discussing the dislocation between the external and internal level of prices, you say, "steps must be taken to prevent further deflation, due to the growing international competition for limited, and possibly diminishing, new supplies of gold. Some of the proposals for action by the Bank of England which have been made would, if carried out, result at first in a rise of internal prices only, and would thus intensify our present troubles. We have no belief in such facile remedies." What exactly are those facile remedies which you have in mind, Mr. Dampier-Whetham?—(*Mr. Dampier-Whetham*): Well, Sir, I think I can explain that, perhaps, more clearly if I may refer quite shortly to what Sir George has been saying. I agree fully that it would be an excellent thing if currency and credit could expand as wealth grew, but I am not quite sure what the effects would be if that were carried out in one country alone. I am not quite sure whether its first effect would not be to put up the price level in that one country, and if we were to do it whether it would not decrease our competitive power in competing with other countries. I am very strongly indeed in favour of this growth in currency and credit, if it can be managed, as the wealth of the world grows. I am not quite sure what its effects would be if one country acted alone, and I think some of the suggestions which have been made for action by the Bank of England would create this increase in the price level in this country without affecting prices in the world, and so would, to that extent, decrease our competitive power. That is why we ventured to suggest that the easiest and—what shall I say—most orthodox way would be by way of international agreement to economise gold and so prevent the competition for gold reserves which is now going on, and which we think is one cause, at all events, of the continued fall in the general price level.

3585. But what are the steps that you have in mind apropos the Bank of England?—I think some folks have argued that a very large extension of credit should be made without any reference to gold, or securities, or wealth, or anything of that kind. I think we were arguing against the rather rash suggestions that have been made.

3586. *Mr. McKenna*: I do not know of any suggestions that have been made to increase credit without relation to production, but would you agree that credit should be increased in proportion to production?—I should most cordially and fully agree if it were done by international agreement, if it were a world operation. I am not quite sure; I should be glad to think that it would be right for one country to do it alone.

3587. I am thinking of one country only for the moment. Would you establish any relation in that one country between your quantity of credit and your quantity of production?—I should very much like to, but I hesitate to express an opinion on a problem which is really one for bankers and financial authorities.

3588. *Mr. Brand*: At any rate you would not like to see anything that raised the price level in this country relatively to that of other countries?—I should very much like to see a general rise in prices all round, but if it were confined to this country alone—

3589. *Mr. McKenna*: There are three possible steps—stability, rise in prices, and fall in prices?—Yes.

3590. I understand that you dislike the thought of a rise in prices in this country alone; but do you like the thought of a fall in prices in this country alone?—No, I think that is even worse.

3591. Would not that mean that you must increase the quantity of credit in proportion to the quantity of production or else you would have a fall in prices?—Yes, I agree to that, but I think it ought not to go so far as to put up the price level of internal commodities here faster than world commodities.

3592. Would not that mean you were increasing the quantity of credit more than the increase in the quantity of production?—I think that is so. I did not quite grasp your point. I accept it now.

3593. *Mr. Brand*: Of course, even if we get rid of the difficulty between the sheltered and the unsheltered industries, our costs would still be considerably higher in this country than in other countries. Even before the War, agriculture was in difficulties?—Yes; but it had settled down to that discrepancy.

3594. *Mr. McKenna*: Perhaps I should correct my question by saying that, by production, I meant production of consumable goods?—Yes, I agree with your point now that I have grasped it. I should like to add this one thing, if I may. If this improvement in the Agricultural Credits Act which Sir George has indicated were carried out—I mean the mere improvement in the machinery of it as distinguished from the creation of new credit—I think mere improvement in the machinery, while it might give the farmer increased credit, and so be convenient, would not really cure his losses in a time when the price level was falling. (*Sir George Courthope*): Oh! no; it would contribute; it would not cure it.

3595. *Mr. Brand*: If you got more credit in such circumstances it would increase losses?—(*Sir George Courthope*): No. If you got credit at a reasonable rate of interest instead of an exorbitant one your losses would be less.

3596. *Mr. Keynes*: Really you do not want so much an increase of credit as that the credit which is given should be on the cheapest possible terms?—Yes, I want the credit to be so readily accessible, through the man's bank, that he is not induced by circumstances to go elsewhere and pay an unknown figure for the credit he must have. I would not say I do not want any increase; I do want an increase, because the present system of credit covers the commodities he buys but it does not allow anything towards his expenditure on labour, and it is most important for successful agricultural production that the farmer should have access to a fund to enable him to put ample labour into his agricultural production.

3597. *Chairman*: Then you really think the farmer is suffering from a restriction of credit below the amount to which he is entitled?—Certainly.

3598. *Mr. Brand*: Although you would agree in some cases, perhaps not in a great many cases, that as things have turned out bankers have given farmers more than they ought; bankers have given a good many advances to farmers that farmers cannot possibly repay?—Certainly. I was dealing with what, in my view, is the relative breakdown of the short-term credit scheme under Part II of the Act.

3599. *Chairman*: It only remains for me to thank you very much, not only for your memorandum, but for coming here this afternoon.—I should like to thank you for the courtesy with which you have heard our evidence.

3600. Pray do not hesitate, if anything else comes into your mind to let us know. I notice in to-day's paper suggestions for the relief of agriculture. I do not know what they will mean.—I am a member of the Agricultural Conference sitting at the Ministry of Agriculture. We have many remedies there.

3601. We shall be very pleased if you can let us have further suggestions.—Thank you. I take it that applies only to such matters as are concerned directly or indirectly with banking or credit?

(*Chairman*): Yes; it is really that aspect, of course.

(*The Witnesses withdrew.*)

Sir MARK WEBSTER JENKINSON, K.B.E., F.C.A., called and examined.

COPY OF LETTER FROM SIR MARK WEBSTER JENKINSON TO MR. FRATER TAYLOR.

28th February, 1930.

DEAR FRATER TAYLOR,

With reference to your suggestion that I should let you have my views on the possibility of further financial facilities being available for industrial undertakings either through the medium of the banks or otherwise, the following points occur to me:—

(1) *Financial Trust.*—It is not in accordance with the traditions of British banking, and would not be in the national interests, if the banks adopted the Continental practice and took an active interest both in the raising of share capital for industrial undertakings and participation in the management of such concerns. On the other hand, there is no doubt that many concerns to-day find it difficult to raise the finance required for new capital expenditure and developments, and in view of the present state of the money market, and the fact that many of these concerns have poor profits records in the immediate past, it is not practicable for them to issue shares or debentures to the public with any chance of success. In many cases, if these undertakings could have the necessary capital placed at their disposal to instal new plant or develop new markets, what to-day are non-profitable enterprises might in many instances be converted into successful ventures. What is therefore required is some auxiliary body which without usurping the position of the banks would provide the capital required, and at the same time take some active interest in the control which the banks with their present organization cannot do. I believe there is room for the formation of financial trusts to supply this need. Let us assume, for example, that a Trust were formed with a capital of £1,000,000. This amount would be invested in gilt-edged securities. A company requiring further capital would then approach the Trust, and instead of the amount being actually advanced by the Trust, arrangements would be made for the loan to be granted by the company's bankers, the Trust putting up some portion of its securities as collateral. The banks in advancing the money would know that they were covered against loss, and as each concern was put on its feet additional capital would be raised from the public in the form of shares or debentures to repay the bank loan as it is not the function of banks to provide the fixed capital required for the conduct of industry. For the accommodation thus provided, the Trust would receive — per cent. additional interest over and above the amount charged by the bank, and a block of common stock. The Trust would also nominate one or more of its representatives to the Board to assist in the development of the business, and if desirable, to bring about the fusion with other undertakings similarly engaged. From the Trust's point of view, its income would be derived from the additional interest receivable, and from the shares which ultimately would prove of value, and in addition it would have the income from its gilt-edged securities. The company would get the advantage of the loan which without the intervention of the Trust it would not be practicable for it to obtain from the bank, and would also gain the advantage of the expert help in management which the Trust would provide.

It is quite true that losses might be made, but if the affairs of the Trust were properly handled with a proper selection of the concerns to whom financial assistance were afforded, the financial results should over a period of years prove satisfactory.

(2) *Contracts Guarantee Scheme.*—Considerable volume of trade could be done by British manufacturers with countries in Central and Eastern Europe, but for the fact that payment is only obtainable on deferred terms, and British firms can neither lock up the capital required nor accept the risk attached to individual transactions with credit extending over three, four or five years.

In pre-war days, when capital was needed for large contracts, the money was either borrowed from a bank or raised through finance houses, but, since the War, the economic position of such countries has made financial assistance from these sources impossible.

The orders, which otherwise would have found work for our unemployed have therefore gone to Germany, Italy, Czecho-Slovakia, etc., the banks in those countries giving the credit required and frequently raising the capital for the purpose on the English money market by means of short loans which are renewed from time to time.

In other words, capital, which banks and finance houses did not feel justified in lending to British manufacturers for credit to Central and Eastern Europe, is being advanced to foreign bankers and used for the same purpose and the resulting trade is lost to this country.

In some industries British manufacturers are now endeavouring to reduce their production costs by rationalization, but it is impossible for such companies both to raise the capital required for new plant and works development, and also to sell their products on deferred payment terms, particularly when the credit of the country to which the customer belongs precludes the discounting "sans recours" of bills received.

The question of the unemployed is a national problem, and therefore it is for the Government to assist in the formulation of a scheme which will help British trade and re-absorb in industry some portion of the unemployed.

On the other hand, it is not the function of the Government to assume financial risks, which, if they are called upon to shoulder, will leave the individual manufacturer in a substantially better position at the expense of the general body of taxpayers, than he would otherwise have been.

The following scheme is therefore suggested:—

(*a*) A company called, say, "Central & Eastern Europe Credit Bank" to be formed with a capital of £50,000,000, in, say, 10 year bonds to be issued as required, the bonds, bearing interest at 4 per cent., to be issued at a price which will yield 5 per cent. on redemption, and guaranteed both as regards capital and interest by the Government.

(*b*) This Bank would make advances to British manufacturers on contracts placed with them, approved by the Board of the Bank, to the extent of the estimated cost of the materials, labour and direct charges included in the contract, the estimate being verified as required by the bank.

(*c*) The manufacturer would agree to accept full liability for the amount of the fixed charges and profit included in the price, payment of which would be deferred.

(*d*) The whole of the interest payable by the customer (which would be fixed at a minimum of 6 per cent. per annum) would be received by the Bank.

(*e*) The instalments payable under the contract would be collected by the Bank and applied in reduction of the loan.

(*f*) At the end of each year the amount received on contracts upon which the loans had run off would be paid over to the manufacturer less a deduction of 5 per cent. on the amount of profit and fixed charges for expenses, and the "loss levy" mentioned hereunder.

(*g*) If some of the customers defaulted, the loss (other than the fixed charges and profit included in the price) would be met by a "loss levy" charged against all contracts unexpired and limited to 40 per cent. of the amount of profit and fixed charges included in such contracts, the balance of any loss being borne by the Bank.

(*h*) At the expiration of 10 years (or such other period as may be determined) the bonds would be repaid at *par* plus any profit earned by the Bank during the period.

Example.—A company accepts a contract at a price of £525,000 (including interest) repayable by instalments of £105,000 per annum over five years.

The estimated sale price is made up as follows:—

	£
(*a*) Labour, materials, and oncost	375,000
(*b*) Profit and fixed charges ...	75,000
(*c*) Interest at 6 per cent. per annum on £450,000 less instalments receivable ... say	75,000
	£525,000

The annual repayments would be appropriated as follows:—

—	Total.	Bank.		Contractor.
		Principal.	Interest.	
	£	£	£	£
1st year ...	105,000	78,000	27,000	—
2nd year...	105,000	84,000	21,000	—
3rd year...	105,000	90,000	15,000	—
4th year...	105,000	96,000	9,000	—
5th year...	105,000	27,000	3,000	75,000
£	525,000	375,000	75,000	75,000

At the end of the fifth year the contractor would thus receive the amount of his profit and fixed charges viz.: £75,000 less 5 per cent. for expenses £3,750: net amount receivable £71,250.

If, however, during the period the Bank had incurred losses through the default of customers in respect of whom advances had been made, amounting, say, to a sum equal to a percentage of 10 per cent. on the *total* amount of profit and fixed charges on contracts accepted, a "loss levy" of £7,500 would also be deducted from the amount paid to the contractor being his proportion at 10 per cent. If the percentage loss were 50 per cent. the maximum deduction of 40 per cent. would be made viz.: £30,000.

Based on the experience of the past five years had such a scheme been in operation during that period the losses would have been very small, and a large volume of trade would have accrued to this country.

The Bank would earn the following profit:—

(1) 2 per cent. interest on the loans granted (including interest on the profit and fixed charges included in the price).

(2) 5 per cent. on the profits and fixed charges included in the contract.

If, therefore, the bonds were issued at a price of 90 there would, in the absence of heavy losses, be a surplus at the end of the 10 years both to meet the discount on issue and to pay a bonus, thus making the bonds attractive to the investor.

From the manufacturer's point of view although payment of the profit and fixed charges would be deferred for five years, but for the financial help from the Bank the contract could not have been accepted and the fixed charges now recovered would otherwise have been a dead loss. If called upon to bear the "loss levy" to the maximum of 40 per cent. of the profits and charges included in the contract there would still remain over 50 per cent. of the charges recoverable (allowing for interest on the amount outstanding), and many manufacturers to-day are willing to accept orders with only "half" charges in the price.

From the Government standpoint, even if heavy losses were incurred, it is doubtful if the liability would be greater than the unemployment relief now paid to the workers who would be absorbed, and the Income Tax on the profit and fixed charges recovered from the manufacturer.

The scheme would give that stimulus to trade which is so badly needed and would assist in the restoration of British industry.

It is suggested that the management of the bank should be vested in a Board consisting of representatives of various banks who would have access, through their Continental correspondents, to information regarding the financial stability and reputation of the foreign trade customers: two or three Directors with commercial experience: and a whole time Chairman and Managing Director. The running expenses would be comparatively small as it would be unnecessary to set up an elaborate organisation. Possibly it might be thought desirable to limit the application of the scheme to contracts over £100,000 but in such case, to help the small manufacturer arrangements could be made through the Chambers of Commerce for "open credits" up to certain limits, the Chambers of Commerce in various districts arranging composite contracts and acting as the medium between the small manufacturers and the Bank.

Without a scheme of this kind it is difficult to foresee how this country can regain its trade with countries where the national credit is so weak that contracts cannot be financed in the ordinary way; it is clear that firms, however strong financially, cannot jeopardise their future by risking all their resources on a few customers; it is apparent that without such orders we cannot fill our shops nor find productive work for the unemployed, it is reasonable to assume that if we allow Germany, Italy, America, and other countries to supply these markets in their hour of need we shall never win them back.

The scheme fulfils the following requirements:—

(1) The investor is protected by the Government guarantee and has an opportunity of earning a satisfactory bonus as consideration for the low interest rate he receives.

(2) Within reasonable limits losses are borne mutually by those manufacturers who wish to do business in countries having weak credit.

(3) Only abnormal losses fall on the Government who in consideration therefor obtain work for the unemployed.

(4) No profit accrues to the manufacturer until the Government liability has been met.

(5) With reasonable prudence and in the absence of political causes the Government merely lends its credit to enable the capital to be obtained at low interest rates and will suffer no direct loss. In the event of losses being incurred if the credit is spread over various countries it is reasonable to assume that the actual deficiency would not exceed more than a small proportion of the credit given.

The function of a Government is to consider the welfare of a nation as a whole and any step which at the present time can assist British industry to obtain work is surely one than will re-act for the good of the community generally.

(3) *Industrial Banks.*—In the case of attempts to rationalise any particular industry one of the main problems to be faced is that of finding the necessary cash capital for the provision of the new plant required, and the difficulty which always arises of dealing with bank overdrafts and debenture charges of the companies brought into the combine. It is therefore suggested that for each rationalised industry an "Industrial Bank" should be formed to act as a clearing-house for the purpose.

If the joint stock banks would agree to pool their existing loans so that the closing down of any one firm did not result in a loss at the expense of one bank to the benefit of other banks; if such loans were taken over by the "Industrial Bank" at an assessed value in exchange for bonds; if the debentures of the constituent companies were similarly acquired on a valuation basis in exchange for bonds; the "Industrial Bank" might then raise new capital for the industry. A charge on the whole undertaking of the combine would be given for the amount of the bonds and new capital, the terms being such that the return obtained would cover the bond interest and give a yield on the new capital sufficiently attractive to obtain the amount required. Possibly it might be necessary for the Government to give some form of "Trade Facilities" guarantee in order to secure the new capital required until the trading position of the industry so improved that the combine could finance itself through normal channels. The current banking business of the combine and its subsidiaries would continue as before with the joint stock banks, but all capital requirements would be dealt with through the "Industrial Bank" which necessarily would have its representatives on the Board of the combine.

The "Industrial Bank" would also be used if necessary for financing long term credit contracts taken by the Export Company, which, it is suggested, should be set up to handle foreign trade.

It is recognised that this method would vest in the "Industrial Bank" very drastic powers of control, but as the security of the Bank would be the prosperity of the industry the exercise of such powers could only be for its good.

You will appreciate that these suggestions, two of which, I believe, I have already discussed with you, are merely intended as a basis for further consideration, as the details would necessarily require careful examination before any concrete scheme could be formulated. If, however, you think that any one of them is worth further development I shall be glad to pursue the matter further, and give you any help I can.

The fact of the matter is that most concerns to-day in the exporting trades have exhausted their financial resources; that it is not the function of the joint stock banks to risk the deposits which they hold or the capital of the shareholders in long-dated loans to undertakings over which it is impossible for them to exercise any managerial supervision; that the public who take a greater interest in the possibility of capital appreciation on the Stock Exchange than they do in the development of any particular industry, are not likely to find the amounts required with no hope of immediate gain; and only, therefore, with some national help can certain of the depressed industries be placed in a position to put their houses in order.

You know as well as I do, how Italy has during the past few years secured a large volume of trade through Government support in long credit transactions, and if the same help had been forthcoming for British industrialists there is no doubt that work secured by foreign competitors could have been obtained by our home manufacturers.

Yours truly,
(Signed) M. Webster Jenkinson.

3602. *Chairman*: Sir Mark, last month you wrote a letter to Mr. Frater Taylor, our colleague, in which you outlined various suggestions for our consideration?—Yes. They were some suggestions I made to Mr. Frater Taylor at lunch one day.

3603. That letter has been circulated. We have all studied it. I think where you may help us most will be in discussing some of those expedients. I rather gather that you have satisfied yourself that the existing system for the provision of credit to industry is inadequate?—The method of provision of credit in certain cases.

3604. At present you can go to your bank for an overdraft or you can go to the public for capital?—That is so.

3605. And I gather that in your view there is a need for some third or intermediate method of providing credit for the man who has got all he can get from his bank, or has no more security to give, and who on the other hand cannot go to the public because he cannot give a chartered accountant's report? —It does not matter so much about the chartered accountant's report; if for some years losses have been made, the public naturally will not subscribe.

3606. Of course, one can see at once, theoretically, that there must be some cases where credit may legitimately be required, and cannot be secured either from the bank or from the public, but in practice—and you have had a large practical experience—are there many cases in this country where legitimate enterprise has really been thwarted for want of capital?—I think there are to-day.

3607. There are two aspects; there is, on the one hand, the question whether capital is being provided in sufficient measure to aid rationalisation, as it is called; on the other hand there is the question whether adequate capital is forthcoming to aid new enterprises—new industries?—I think new industries generally can find the capital. I am thinking more particularly of some of the older industries, as, for example, the steel trade, where for several years there have been bad trading results and it is necessary to install new plant, alter the lay-out, and in many cases institute new management as well. Until they do that they cannot hope to compete with the foreigner and get back our export trade.

3608. The problem you have chiefly in mind is that of an established industry which has got into a bad way?—That is so.

3609. It has exhausted its existing credit facilities; and yet it is an industry that ought to have a chance?—It is necessary for it to have that chance in the national interest.

3610. *Mr. Frater Taylor*: Would you deal with the steel industry, for instance, in sections, that is, individual concerns, or would you deal with it as an industry?—I gave evidence before the Steel Commission, and made certain suggestions for dealing with the steel trade. I think there should be rationalisation both geographically and as regards product. When you talk of the steel trade you are not talking of one business, you are talking of various businesses grouped under the generic term " steel trade." It is no good amalgamating crucible steel manufacturers in Sheffield with constructional steel people on the north-east coast; you must amalgamate according to products and you must amalgamate geographically. It is useless to amalgamate a firm in Scotland with one in South Wales, as there would be no economy in doing so. I therefore suggest that amalgamations should be made both geographically and according to products. That having been done, each of those combines would require financial assistance to put its house in order.

3611. *Chairman*: Is the objective to bring down the cost of production?—To bring down the cost of production, but at the same time it is necessary to eliminate some of the competition which at present exists.

3612. Wasteful competition?—Wasteful competition. Many of the plants are employed only 40, 50 or 60 per cent.

3613. *Mr. Frater Taylor*: There is a bad situation in the machine tool industry, as I think you know, and that has a profound bearing upon what the motor car makers do. There have been big purchases outside this country. I think you would say that that is a section that should be taken in hand?—Yes.

3614. And also you would agree, perhaps, that the initiative should come from themselves?—I think that in nearly every case the initiative should come from within, but, unfortunately, there is not usually the propelling force necessary.

3615. *Mr. Frater Taylor*: That is the trouble—how are we going to get these people to take stock of themselves? (*Chairman*): To get the necessary drive—to get rid of the inertia?—And also to get rid of vested interests.

3616. *Chairman*: Are there many instances in this country where a manufacturer has exhausted his credit, and is, as is commonly said, in the hands of the bank to a large extent, added to which he finds himself faced with falling prices, competition in the markets which he formerly served, and is really more or less at his wits' end?—Take the cotton trade as an example.

3617. A very good example?—Only this morning I have been discussing the question of the installation of automatic looms. I believe that in America most of the manufacturers have automatic looms. In this country the matter is being considered, but one of the difficulties is to find the necessary finance to scrap the existing plant and put in automatics.

3618. How far do you think the assistance required is monetary assistance? Enterprise by the manufacturer himself, in, shall we say, scrapping obsolete plant, combined with elimination of wasteful competition, and so on—many of these things could be done by the manufacturer himself; some of them cost money and some do not; getting rid of old plant and replacing it, of course, does cost money. Are there many who have reached a position where they cannot do that?—I think in the basic industries such is the case; but money is no good unless you have good management as well; money alone will not revive an industry, although without money the best brains cannot do it.

3619. So you want brains and money. How do you suggest that those two very important forces can be brought to bear upon industry in this country?—I throw out two suggestions in the letter to Mr. Frater Taylor; one, the formation of a trust, which would really supplement what the banks do to-day. Naturally a banker is not prepared to advance money handed to him by his customers on deposit unless he gets adequate security, and where a concern has had bad trading results for four or five years, with liquid assets not commensurate with the liabilities, and fixed assets which on a " break up " are worth practically nothing, the banker will say, " I am not prepared to let you have more money." If some trust existed which said, " We will deposit collateral securities with the banker if he will grant a loan," the banker would do so.

3620. Why would you interpose the bank? Could the advance not be made direct by the financial trust?—Take a company with a capital of, say, half a million pounds. The bank might be prepared to advance £100,000 if secured by debentures. In order to carry out the scheme the company might need £200,000. The trust would deposit £100,000 and the bank would advance an additional £100,000; that would give the trust more working capital, whereas if the trust had to find the whole of the money it would lock up its assets straight away.

3621. *Mr. Frater Taylor*: Do you mean by " trust " a large trust, or a trust to fit particular industries? Would you have, in other words, a finance institution dealing only with the steel industry?—I think the trust should, so far as possible, confine itself to one industry alone. It would be necessary for it to have representation on the Board, and to assist in the management, and to advise. If it were dealing with different industries, naturally it would not have the men at its command to do that.

3622. *Chairman*: You could not have a man who was expert in every department?—He might call himself so, but he would not be so.

3623. *Mr. Brand*: Your scheme presupposes that the additional money would be properly used?—Certainly.

3624. Otherwise the trust would be taking a risk?—Yes. When a bank advances money it cannot interfere in the management; it cannot supervise the management; it may put its nominee on the board, but he is only a financial representative, whereas the trust would put a technical representative on the board.

3625. The trust would not do it unless it was satisfied that the money would be profitably used?—And that there was a prospect of pulling the business round. There are businesses to-day into which you can put brains and capital, but they have got into such a condition that nothing can do them any good.

3626. Would you say the lack of profit making in industry to-day is due to management rather than to external causes?—It is due to various causes, management in some cases, in other cases you have very good management handicapped by lack of the necessary financial resources.

3627. Take the iron and steel industry; with management and capital do you think that any iron and steel business could be made to pay?—No, but I say certain of them could. The iron and steel industry could be put on a profitable basis. I do not say that every single concern in the industry could.

3628. You do not think foreign competition is in such a favourable position that it would prevent even the best concerns becoming profitable?—Certain classes of steel we buy from Belgium are manufactured under the Thomas process. I do not think whatever we did in this country we could produce that same steel at the same price.

3629. *Mr. Frater Taylor*: You would say that the steel industry would have to put its house in order and concentrate production in fewer plants?—In the steel industry some form of rationalisation is essential.

3630. *Mr. Brand*: To turn to another industry, the beet sugar industry, which now has a big subsidy, I know a little about it from having financed a certain number of companies, but it seems to me that without a subsidy the costs of producing beet sugar in this country, because of the cost of agricultural labour, and so on, are such that whatever the management you could not compete. Is that the position in iron and steel?—The beet sugar industry is somewhat different from steel; it is a new industry, and in addition it is not an industry peculiarly applicable to this country.

3631. The soil is very favourable for it in many cases. It is a question of relative costs. Is that an important element in the iron and steel industry?—In certain sections of the steel industry yes, undoubtedly. What I say is, that to-day in many of our steel works we are not producing steel as cheaply as we could do if we had more modern plant and were able to concentrate the whole of the production in a few works, instead of having so many plants working perhaps 40 or 50 per cent. capacity, as they are now, with their heavy additional overhead charges.

3632. If it is the case that the fundamental situation is against the possibility of making profit, then all these financial trusts do not help?—I would say that if in the cotton trade you were to lose the whole of the Indian market, or you were to lose the whole of the Far Eastern market, neither change in the matter of the management nor in the supply of capital available in the cotton trade would make any difference.

3633. *Chairman*: And the real question is the extent to which you can reduce costs of production by these expedients, rationalisation, concentration, and so on; what is the order of the reduction in the costs of production that you could achieve by those means?—Each case would have to be investigated, and be judged on the merits of the individual circumstances.

3634. Supposing you cannot, by these methods, however admirably administered, reduce your costs of production more than, let us say, six per cent., and you are competing in a market where prices are against you to more than that amount; you would not get in?—No; it may be that there are trades which this country may have to give up. It may be so. There have been trades carried on in the past in this country which have gone to the wall, and their places have been taken by other trades. I am not suggesting that that is so in the steel trade, but there may be individual cases of this kind.

3635. *Mr. McKenna*: Is it the case that in the iron and steel trade you cannot compete owing to wages costs and owing to the competition of subsidies? Could we afford to lose the iron and steel trade as a whole?—I cannot accept the statement, first, that we cannot compete. We are producing to-day more steel than we were in 1913. I am speaking now without the book, but I believe we are exporting as much as we did in 1913, but we have not got our proper proportion of the increase of the world consumption of steel. France has increased her exports something like eight times over those of 1913.

3636. Would you say we are producing and exporting as much to-day as in 1913 at the same profit?—I will not say at the same profit.

3637. Are we not producing a good deal of it at a loss?—Yes, because the capacity of the steel trade was so very largely increased during the War. If you could concentrate that production and thus reduce the administrative charges which go into the cost of each ton of steel then many concerns would be making a profit.

3638. Do you think we can produce at the 1913 level under rationalisation at a profit?—Yes.

3639. Equal to the 1913 level?—Yes. I will not say in all classes of steel, because you know that part of our steel production was in connection with armaments, and on those special steels one had a larger percentage of profit than on commercial steel.

3640. *Mr. Bevin*: How far with present royalties could you bring costs down?—Royalties constitute a very small percentage of the cost of a ton of steel. There may be a 4d. royalty on the coal and there may be a very small royalty, less than that, on pig iron. It makes very little difference to the cost of a ton of steel.

3641. Have you worked it out in actual detail?—No, I have not worked it out.

3642. Do you not think the cost of royalties in this country is nearly enough to equal the difference in the labour costs between the two countries?—No, because in any case you would have to buy your coal—for example, if you nationalised coal mines to-day the Government would have to pay something for them; and they could not afford to give the coal to the steel manufacturers. Why should the steel manufacturer have his coal free of capital cost any more than the householder?

3643. I quite agree, but the effect of royalties is a very big effect; it is cumulative.—It is in the purchase price of the article; whether the royalty is paid to the State or to the individual has nothing to do with it; if I want coal to make a ton of steel I have to pay something to the man who owns it, or to the Government who owns it.

3644. *Mr. Frater Taylor*: May I go back for a moment to this question of how to get the industry together? In your letter to me you say, "The question of the unemployed is a national problem, and therefore it is for the Government to assist in the formulation of a scheme which will help British trade". Do you mean by that, for instance, that if those engaged in the steel industry refuse to get together the Government should intervene?—Take, for example, the steel trade. I suggest that there we should have what I call a Steel Bank to finance the industry. Say you have a combine, A-B-C-; they require a million or two million of money to put down new plant; they cannot go to the public because the public will not subscribe, they cannot go to the banks because the banks will not find the money; this Steel Bank in the same way, if it went to the public, would not get the capital required; therefore for an industry like this I think the Government must come along and lend its credit in some form or another until the Steel Bank can repay its loans, which it would do if the industry were successful in its reorganization.

3645. Would you suggest that the Government should coerce the industry to get together because, as you say, it is a national problem?—No, I do not believe in compulsion. Various fusions have already taken place in the steel industry. Once these are put on their feet and begin to earn profit others will be only too glad to come in. The trouble is that in some cases you cannot get fusion because of the financial position of some of these companies; they are in the hands of their bankers and debenture holders, and they are not able to come in, because no combine would take them with those liabilities round their necks.

3646. *Sir Walter Raine*: Would not the banks do something for them if they showed their willingness to combine?—The banks have been very generous. My own opinion is that the banks have put up all that they ought.

3647. The banks will not do it?—The banks will not do it, if there is no security.

3648. Supposing you have five or six steelworks within a reasonable area, and they are all more or less derelict, and they are all in the hands of the banks, and supposing those five or six companies were to draw up a scheme of amalgamation and have a central works, do you not think that under those circumstances the banks, with a view to saving part of what they would otherwise lose, would be prepared to consider such a scheme?—Well, if the overdrafts were all with one bank, and if there were not the difficulties of first, and sometimes second and third, debenture holders, with different trustees, something might be done, provided the bank were satisfied that this amalgamated concern was going to earn sufficient money to repay both the new loan and the existing overdrafts.

3649. We have been told that in some instances where the banks have held debentures they have made very generous contributions when there has been a willingness to amalgamate with a view of reducing costs?—The banks have in very many cases, I quite agree, but there is a limit to what the banks can do.

3650. *Mr. Brand*: May there not be something more fundamental than anything that can be cured by amalgamation? The English Steel Corporation did not immediately begin to make profits?—No; you have to close down certain works, and when you are closing down works you have to pay compensation to some of the staff; you have orders that you must complete in those works, and whilst those orders are in course of completion the administration expenses and the fixed charges are going on, and that all means a very great loss until you get the consolidation finally effected.

3651. I suppose you would agree that the financing of these things is difficult only because the firms are not making profits?—That is so.

3652. If they were making profits your financial machine would be perfectly adequate to finding the money. Therefore the financial machinery which you propose will only work if it will turn the thing from a loss-making business into a profit-making business?—It is really to carry on in the interim.

3653. Otherwise these financial trust companies hit themselves?—The Trusts would find the finance in the interim until the companies get on to a profit-earning basis, and then finance can be raised in the ordinary way from the public.

3654. *Chairman*: That is the assumption, that if the finance were forthcoming the business could be restored to a profit-making basis?—If the finance were forthcoming, and in addition you were sure that you were getting proper management. I must stress that. Personally, I know of cases where money has been found, but where the management has been bad, and no profitable results have been obtained or will be obtained until the management is changed

3655. You must be sure you will get proper management? The question is whether improved management, and all those remedies which have been called "rationalisation" are sufficiently heroic; whether they will really regain for us the business we want. It all depends on the order of the reduction of the costs of production that you can achieve?—Certainly.

3656. The brains may help you to reduce costs; so also may the elimination of competition and higher efficiency; all those things ultimately react on the competitive costs of production?—Quite.

3657. And the question whether you are going to make adequate profits or not will depend on whether you will, by your reduced costs of production, improve your earnings in the market?—Reduced costs of production and more efficient selling organisation. From the national point of view profits are less to-day because individual firms are competing against one another in international markets, and reducing prices in order to secure the work for individual concerns instead of for the country.

3658. We know that in France in particular they have a large number of works equipped in the most modern fashion; they have been able to get that out of Reparations. We shall assume that the average Frenchman has quite a good brain too; he is an individualist. If we have similar equipment, similar brains, on this side, are we in a position to compete with these people? Are we not still handicapped by our higher costs?—I do not say our costs could be brought down to a point at which we could compete with every country, but to a point at which we could secure a very much larger share of the export trade.

3659. Of course, every penny you take off increases your chance of getting across the economic frontier; you can get a little further, but would it be sufficient to regain lost trade?—There are certain countries we could never get into; we could never get into America, for instance, with its high tariffs.

3660. Is the tariff position becoming worse?—In certain countries, but we have lost most of those years ago.

3661. We have heard that tariff manipulation is becoming more expert, and hitting us harder?—In certain branches of industry it may be so, but we do not want to argue safeguarding, do we?

3662. Speaking not politically, but economically, it is difficult?—Take the shipbuilding industry; supposing we had safeguarding for the steel industry, that would send up the cost of steel; it would be safeguarding inefficiency, and our shipbuilding trade would be very badly hit. (*Mr. Frater Taylor*): That is if you had safeguarding as it is to-day. I do not quite agree with that thesis.

3663. *Sir Walter Raine*: You made a statement a few minutes ago that firms are competing amongst themselves for orders. Have you any reason to think that we could get higher prices abroad for orders?—I certainly do in some contracts.

3664. In other words, English prices are so much below the lowest for contracts that probably we could get £1,000 or £10,000 more?—It is not always a question of price; you have to take quality into account as well, and sometimes British material is specified.

3665. I do not mean that at all. You made that definite statement; it is a point I am interested in; do British firms compete among themselves to such an extent that if you could imagine that competition done away with we could get better prices abroad?—In many instances, yes.

3666. Has the Derating Scheme of last year helped you at all in the manufacture of steel?—It has to some extent.

3667. Have you any idea, roughly, how much? Of course, it depends on the rates, I know. Do you know the Middlesbrough district?—In Sheffield I had the figures worked out; I have not got them with me now, but I could let you have them.

3668. Take Middlesbrough, for instance; apart from Derating, those works will get a reduction in the rates from 1st April of 2s. 6d., but that 2s. 6d. will only apply to a quarter of the valuation. Can you tell me, roughly, how much the relief will be on a ton of steel?—I cannot tell you from memory. I got the figure worked out some months ago.

3669. I wish you would let me have that?—I will do that; I will send the figures to the Secretary.

3670. *Mr. Frater Taylor*: Sir Mark made a rather interesting comment, Mr. Chairman, in connection with his contract guarantee scheme; he said a considerable volume of trade could be done in Europe, but he implied that the British finance houses are helping foreign banks to the disadvantage of that trade. (*Chairman*): I was going to ask Sir Mark to deal with a few points on the proposal for guaranteeing credit business. In regard to the paragraph to which Mr. Frater Taylor drew attention, we have heard from other witnesses also that indirectly our money is going abroad and being used abroad to finance foreign industries?—Yes. The British finance houses do not lend deliberately to help foreign trade. It depends on the money market; but German and other banks borrow, as I think Mr. McKenna will agree, on the English market on short-term; and renew those short-term credits from time to time. The German banks, and the Italian Government, through their banks, are behind the manufacturers in their countries, and they are able to give very much longer credit terms than we. Just recently one company of which I am a director had an opportunity of taking two contracts for armaments, which would have brought work into this country—one for a million and a half and the other for just over a million. Our price was satisfactory, our period of delivery was better than Italy could give, but that foreign customer wanted something like seven or eight years' credit; and we could not give it; we strained every nerve to get this order, but it was impossible for us to give the credit that Italy could give, and so the work went to the Italian shipyards.

3671. *Mr. Brand*: Who gave that credit—was the State behind it?—The Government in that country stands behind the banks. I am not suggesting we should expect banks to do it. It would not be reasonable to do so.

3672. *Sir Walter Raine*: Would not a transaction like that have been an attraction to one of the insurance companies in London?—The Government Exports Credit Scheme does not apply to armaments.

3673. I do not mean the Government Export Credits Scheme, but, say, the Trade Indemnity Company?—They would not take it.

3674. *Mr. Brand*: They would not take seven or eight years' risk?—I should not think so.

3675. *Mr. Bevin*: It would be a risk in regard to that country, would it not? There might be a risk and they would want another credit?—They would want more material then.

3676. *Chairman*: How do you propose to deal with that? You have outlined here a scheme. Do you think some credit organisation should be formed?—This pre-supposes, of course, some Government assistance; the Scheme I suggest is really a development of the existing Exports Credit Scheme but the manufacturers would take some part of the risk themselves. They would bear the full risk of each individual contract to the extent of their estimated profits and the fixed charges—that is individually—and collectively I suggest they should bear a 40 per cent. levy on the profits and fixed charges which they include in the contract.

3677. How far do you think industries in this country would consent to a scheme of that sort? It depends, does it not, upon collective action?—I see no reason why they should not be very glad to do it. I know one or two firms I am associated with who would be very glad, as regards particular countries to do so.

3678. *Mr. Frater Taylor*: Would there be any possibility in this country of developing a substantially new line of business such as tractors, for instance, on the lines of the American or Canadian firms? I do not think we are very aggressive in that respect, are we?—I would like you not to ask me about tractors, because of a certain scheme which is at present under consideration. If you would mention some other product instead.

3679. I have particularly in mind your paragraph where you practically say that two sorts of capital are required, one for main capital purposes and the other to meet conditions where deferred payments are necessary. That is why tractors came to my mind, as a matter of fact. But use any other product you like?—Speaking of products generally, and leaving out Russia for the moment, because that is always a subject of controversy, there are countries, Roumania and other places, where a good deal of trade could be done if we could give credit terms. No individual firm can afford to run the risk. A firm may have very substantial financial resources, but if it locked up its money for 7 or 8 years in one country, the country which was its customer might default and the firm would be ruined. It cannot afford to take the risk.

3680. *Mr. Brand*: And when you get to the Balkans and countries like that, no bank can afford to do it?—No bank can afford to do it.

3681. *Chairman*: If the risk is only a reasonable risk, why does not private enterprise insure that business, if it is a good field?—You cannot insure it. In certain classes of business only the State can do so. One has to look upon it in this way. Is it in the national interest that we should trade and do business in particular countries? If it is, then the State has to stand the risk. If not, private enterprise cannot take the risk, and it cannot be done.

3682. *Mr. McKenna*: Was it an element present to your mind in framing your scheme that the State already in fact takes 20 per cent. of the profit?—Yes; sometimes more than that, with super-tax. I mention in the scheme that all the State would do would be to lend its credit. If heavy losses—and heavy losses would mainly be through political disturbances in those particular countries—occurred, then the State would have to come to the rescue, and they would get the benefit of increased trade, as there would be increased profit and a greater return in taxation.

3683. *Mr. Newbold*: Do you not think any such action as that would have a very disturbing effect on international relations by causing the Government to interfere?— The Government would not interfere. The Government would merely give its guarantee in the same way as the Export Credits Scheme now helps individual traders with credit.

3684. Yes, but supposing the British Government found that, say, the methods of a foreign Government interfered with its security, do you not think it is very likely that the British Government would be led, rather against its will, to interfere with the affairs of that country and thereby to earn a good deal of illwill in that country?—Well, it never interfered when the Southern States of America defaulted some years ago, and it never interfered with Russia when they defaulted on the Russian Bonds.

3685. Oh! surely?—Anyway, there have been other countries which have defaulted in the payment of bond interest and this Government has never sent its warships to enforce payment.

3686. *Mr. Brand*: I think it is a little far-fetched, to say that you would only lose money if there were political troubles?—That is how the principal heavy losses would come about.

3687. Dealing with any industrial country such as Roumania?—There might be losses, even substantial losses. If you were only going to deal with, say, Roumania, there would be no advantage in having a mutual scheme. I am assuming you are rather going to carry on trade with various countries and customers, so that you would get the law of averages at work.

3688. *Chairman*: I suppose, if it were good business, private enterprise would take it up?—Private enterprise to-day is giving a lot of credit, but there are certain large contracts which it is impossible for private enterprise to undertake.

3689. *Mr. Newbold*: Is it not a case where we ought to say private action, rather than private enterprise, because private enterprise seems to be dying out; private enterprise only goes in if there is no risk?—No, I really could not accept that. I think to-day there is as much private enterprise, if not more than before the War, but it is handicapped, and we are not having the assistance from the City to-day because of present conditions.

3690. What are the conditions?—In the old days, if I wanted to take an order to the tune of £1,000,000 from Roumania, I should have been able to get Bills and take them to the City to be discounted.

3691. *Mr. Frater Taylor*: Is there any relationship between the proposed financial trust and the industrial banks?—Do you mean between my first and third proposals?

3692. Yes?—My first proposal is really one for private enterprise. I am not suggesting there should be no State assistance at all, but I think a trust of this kind might be formed, and if there were proper management and proper selection made of the individual concerns to whom financial assistance were granted, it might be a profitable enterprise worth consideration by financial people.

3693. *Chairman*: Do you think, if we do not evolve some expedient of that sort, we shall not get the business back?—Not at the rate we want it.

3694. *Mr. Frater Taylor*: We are crippled without it?—We are crippled. France and Belgium both had Reparations and were able to cancel a certain amount of internal indebtedness. Germany wiped hers out. America got our cash during the War and were able to develop while we were defending our rights. We are fighting against very heavy odds in industry to-day.

3695. *Mr. Newbold*: But surely, during the War, you had very great improvements and extensions in your buildings and you had assistance from the State by means of the Excess Profits deductions?—I am not speaking about any particular firm, but speaking generally. Plants were extended principally with a view to the production of armaments, and at the end manufacturers were left with buildings and plants, with no market for the products, and it was a handicap to them because they had to maintain them. Ninety per cent. of the industrial enterprises of this country would be very much better off, from the productive point of view, if there had been no War and if they had not had to put down new plant and buildings.

3696. *Mr. Bevin*: But some works were extended to avoid Excess Profits Duty beyond all reason, were they not?—I do not think they were extended for that reason. They were extended because the Ministry of Munitions were pressing them to give a larger output.

3697. *Mr. Newbold*: Steel plants that were built for the purpose of finished material might not be of value, but those that were built for the purpose of semi-finished material would be useful for the machinery?—Take plant for manufacturing guns. They put down gun-pits——

3698. That is finished?—Concerns put down plant for the production of armaments.

3699. I am thinking of blast furnaces, I am thinking of steel works, I am thinking of machine tool plants?—There you have a lot of surplus capacity, and that is why I suggest the rationalisation ot these industries, to get rid of some of the older and more inefficient plant, so that the work may be concentrated in the efficient plant.

3700. How do you account for the extreme slowness with which rationalisation is proceeding in the steel industry? Some groups seems to make no progress towards rationalisation. Is there any interest in those concerns which is, perhaps, not favourable to the rationalisation of the industry?—Some have got financial millstones round their necks, and they do not know where to turn to bring about fusion. Nobody will take them in.

3701. I was interested in a company this week which has an immense amount of American finance. It seems to me possibly that the American banking house interested in a British steel company might not desire to see that steel company reorganised in competition with an American steel firm?—I am acquainted with many steel companies in this country and I have never heard of one where objection to fusion prevails on that score. Take the electrical industry, where there has already been some rationalisation. There has been a great deal of talk, and in the Press it has been suggested there is American money behind it. Yet that industry has been doing everything it can to bring down costs and get a larger share of foreign trade. The electrical industry is one of those industries where rationalisation is proving effective.

3702. I am wondering why it is, because there are certain concerns which seem to be blocking the road?—There are various reasons, the one that I have mentioned is the financial difficulty. Then you have in some cases Boards who do not believe that rationalisation of industry is the best form of control.

3703. Do you think that some of the banks are pulling definitely against each other?—No, I think the banks are only too anxious to help industry, because they are helping themselves by doing so. Unless industry is profitable and prosperous, the banks are not profitable and prosperous. The banks do not thrive on declining industries.

3704. It is astounding; I did not think that the administration of British industry was as slow as it would seem to be?—There is one thing you forget, and that is that in the War we lost a large number of the young men of the country who would have been carrying on our business to-day. The War started in 1914 and, if you take the number of men between the ages of 20 and 30 who were killed and add 16 years to their age, they would be to-day between 35 and 45—it is men of that age who would have had the physical energy, enterprise and ability, who would be developing industry to-day.

3705. Do you not think Germany and France suffered more from the loss of their man-power than we?—Yes, but, as compensation, they have obtained heavy Reparations, that is in the case of France and Belgium; and Germany has wiped off the whole of its indebtedness.

3706. Do you not think we shall probably have to scale down our indebtedness and ask people to forego interest upon certain stock?—I think we have scaled it down already. In pre-War days we had income tax of 1s. 4d., 1s. 6d., and to-day it is 4s. and super tax as well.

3707. Do you not think we shall have to reduce the interest on War Loan?—Why should you reduce the interest on War Loan any more than on greyhound racing shares?

3708. *Chairman*: We are very much obliged to you, Sir Mark, for your contribution to our discussion this afternoon. We are going to study the expedients that you have set down here and what we have heard from you orally. We have a difficult problem.—You have a very difficult problem. Thank you.

(*The witness withdrew.*)

(*Adjourned till Thursday next, the 3rd April,* 1930, *at* 4.30 *p.m.*)

TWENTIETH DAY.

Thursday, 3rd April, 1930.

PRESENT:

The Rt. Hon. LORD MACMILLAN, *Chairman*.

Sir THOMAS ALLEN.
Mr. ERNEST BEVIN.
The Rt. Hon. LORD BRADBURY, G.C.B.
The Hon. R. H. BRAND, C.M.G.
Professor T. E. GREGORY, D.Sc.
Mr. J. M. KEYNES, C.B.
Mr. LENNOX B. LEE.
Mr. CECIL LUBBOCK.
The Rt. Hon. REGINALD McKENNA.
Mr. J. T. WALTON NEWBOLD.
Sir WALTER RAINE.
Mr. J. FRATER TAYLOR.
Mr. A. A. G. TULLOCH.

Sir FREDERICK LEITH-ROSS, K.C.M.G., C.B.
Mr. G. ISMAY, *Secretary*.

Sir JOSIAH C. STAMP, G.B.E., called and examined.

3709. *Chairman*: I think, Sir Josiah, you are familiar with the Terms of our Reference?—Yes, I am.

3710. You appreciate that our main preoccupation is with the question of the basis of credit as affecting industry and employment, both in its national and international aspects? To start our discussion with you this afternoon I might ask you a general question. How far do you regard the difficulties with which we are confronted just now as attributable to general monetary causes?—I should need to split monetary causes into two, and non-monetary causes into two. Monetary causes that are world-wide and monetary causes that are subject to our own correction within this country.

3711. Those that are within our control and those that are definitely beyond our control?—Very difficult to control; we can only share in the control internationally; we can influence them but we cannot absolutely control them. The internal ones, some of them, we may be said to have a much greater measure of control over.

3712. I appreciate the distinction. There are two forms of monetary causes?—Yes. Then the non-monetary causes—call them physical, if you like—there are two classes; there are those that operate to put us in a bad condition regardless of monetary conditions, such as completely obsolete machinery, and there are those which are physical but do not come into operation, and do not really show themselves to our disadvantage, until they are helped by a monetary cause; they may be there, but it is only when you get an adverse movement on the monetary side that they really operate to disadvantage. You say, how far are our difficulties due to monetary causes? I cannot quantify, except in the broadest way, but I should say if you take the international monetary, the internal monetary, and the physical causes affected by money, they are responsible for the greater part, three-fourths or four-fifths, of the trouble.

3713. I gather that you would not attribute the present distress exclusively to monetary causes, but to a concatenation of causes?—To a concatenation of causes.

3714. Some of which are purely monetary, others non-monetary, and some are a combination?—Yes. That preponderance is purely monetary. The non-monetary causes that are not affected at all by money causes are quite a small figure in my judgment.

3715. What are those monetary conditions which since the War have operated adversely upon our industry and employment?—The most important, I think, at any rate in the last three or four years, is the international value of gold. This has made the particular domestic difficulty that we have had even greater. I would like to deal later if I may with the aspects of the international value of gold, and speak now only of the internal difficulty.

3716. What have been the monetary difficulties internally?—We have got very great difficulty in working the gold standard. We should have had very great difficulty in any case, but it is particularly emphasised because when we went back to the gold standard we probably had a handicap; a leap or a jump, unsuspected except perhaps by a few people, of ten per cent. or even a little more, and we have never really overtaken that.

3717. What do you say as to the moment of our return to the gold standard?—The reason why it has been difficult is because we allowed at that time other factors of our economic system to become rigid. If we had deflated in 1921, when everything was on the move, and ready to be resettled, to a greater extent, say ten to fifteen per cent., we might since 1925 have had only the general troubles, but we had got our conditions more or less fixed, and more difficult to move by the time the gold standard was introduced, and we did not suspect that the fundamental economic difference between our price level and the gold price level was as great as it was. I think that those who thought that the time was ripe were misled by looking too exclusively at the exchange position. I think it had come more or less into equilibrium through psychological causes, also because the purchasing power parity between international price levels was not exercising its full influence at the moment. The question as to what would have happened if we had waited is very much more difficult. We, of course, having once done it, hoped against hope that gold prices throughout the world would rise, and put us out of our difficulty; but they did not, for one cause or other, which I can deal with when I come to a later part. That left us with this greater handicap. That is one item that has made our difficulty very much greater, superimposed on the international difficulty. If we had not gone back to the gold standard at that time it is quite possible the example that we set would have been followed by other countries; there would have been a general reluctance to go back. It was so many people going back to the gold standard at once that was one of the factors in unduly enhancing the value of gold. It is quite possible if the world had been keen on the dollar standard, and we had not been in such a hurry to tuck away gold in various reserves, I cannot say, but it is one of the things that might have kept the value of gold from appreciating as rapidly as it did. I do not think we can look too closely at the influence of putting gold into a universal gold standard as a means of increasing its value. If you leave gold merely to one country and to the arts it has not anything like the value, and it is not subject to the same kind of awkward manipulation through political cupidity or stupidity. I think it is quite possible if we had left it over for two or three years the two sides of the lock might have been level water and we might have sailed through without difficulty. I do not know; that is only an opinion.

3718. Then some of the anticipations that were held by those who favoured the return to the gold standard at the time they did have been falsified by the events?—I think so. I expressed the feeling publicly at the time that there was a bigger gap that we had to approach, and I then thought that our industry would feel it very heavily.

3719. We have returned to the gold standard and it is not suggested, I take it, by you that that should be gone back on?—No.

3720. But the consequences of the return have been, in your view, to subject industry to very considerable stress and strain and the system needs adjustment?—I think by this time if it had been that alone we might have got right, but it has been the general difficulty of the price levels throughout the world altering that has been superimposed upon the first difficulty.

3721. The initial price discrepancy might have been absorbed by this time, had not other difficulties supervened?—Yes.

3722. So that we may just get the picture that presents itself to your mind, what are those other handicaps which are adverse to our return to prosperity?—I cannot express it better than by referring to the wholesale price index throughout the world; it was for a time localised, but it showed varying degrees of drop in the last four or five years, of anything from 18 to 24 or 28 per cent., however you measure it, and in my judgment affects this country much more than any other country.

3723. What is the cause of that declension?—The general appreciation in gold.

3724. Or the general fall in price levels?—The appreciation in gold value or the fall in prices—alternative expressions. I should say the main cause is the useless tucking away of gold, without letting it have its normal function that it would if it were used to the full extent, in the treasuries of those countries that can afford to do it.

3725. Then it is related to the gold situation in other countries?—It is related to the gold situation in other countries. The second cause is, that even countries that cannot be said to be tucking gold away uselessly have perhaps too rigid credit ratios imposed upon them, and they could quite comfortably, at any rate in times of peace and security, work on lower ratios. The third thing is the long-term probability that the production of gold is not going to be sufficiently rapid, if you have a rigid proportionate system of credit on top of it, to meet the increasing demands of international commerce and production. Those are the three causes.

3726. Apart from the causes related to gold, has there been any defect due to over-production of commodities, or to any other physical cause which you have in mind?—I admit over-production in particular commodities at once, but I am very loth to admit that the world is full up with all it wants by over-production, that you can have universal over-production of commodities.

3727. A universal drop such as there has been in price levels?—You can always take each particular thing and say the statistical position of that thing shows over-production, but when you have said that you have omitted the fundamental cause that has made them all topple in at once. After all, things will still exchange against each other; rubber against tea, coffee against tin; and if people still want them then there is no over-production; but in relation to the thing with which they are being measured, gold, they are over-produced. They are all over-produced in relation to gold.

3728. *Mr. Keynes*: In cataloguing the causes of falling prices would you attach importance to dearer money throughout the world which is due only indirectly to shortage of gold? In Germany dear money is due to reparations; in a number of countries dear money is due to disequilibrium immediately following the return to gold, and in the United States dear money is due purely to financial causes?—Yes, I should say, when you have once settled in your mind the problem of the gold basis you have to address your mind to the things operating on the credit superstructure. On top of it you have dear money, which is the chief factor relating to the credit superstructure.

3729. If it were due to shortage of gold or to certain habits such as the hoarding of gold, the position would go on just as it is so long as the shortage of gold or hoarding habits continued, but would it not be possible to have a modification of bank policy even though the gold base is restricted?—I was coming to that position, that even though your base may shrink you may keep your volume right by increasing the superstructure. Supposing the "correct" ratio on gold does fall below the amount, it is for you in the future, if not before, to correct that shortage by having a larger superstructure. At the moment we have done both; we have made the worst of the base, and through various causes we have not done justice to the superstructure.

3730. *Chairman*: There are two main causes at work on the monetary side?—Yes.

3731. The second of the causes one may call restriction of credit?—Yes, I think so. I do not object to that. One does not want to introduce prejudice into the term; instead of saying "pessimism" you can say "lack of optimism."

3732. Quite. One does not want to express a negative. The absence of sufficient credit—shall we put it that way?—Absence of the extended credit required satisfactorily to move the economic machine and the commodities, yes.

3733. Are you definitely of the opinion that there has been a handicap on industry through want of credit? How has it shown itself?—Only that you have a price of money, in the old countries at any rate, which is in general above what you would imagine would be the average economic yield of new openings.

3734. Would it follow that if money had been cheaper it would have been utilised in enterprise?—For a sufficient length of time and at the right price, yes, I think there would have been more used.

3735. What I want to get at is how far the present unemployment and other difficulties can be laid at the door of want of credit. What facilities have been wanting? Or is it merely the fact that money has been dear that in your view explains the position?—No, it is not only that. This, of course, is a very important factor. I am a little in doubt as to how to present to the Committee what I mean on this point, because like so many other things in the purely economic field, the long run condition is the reverse of the short run. For example, I suppose it is generally accepted here—I need not go into it—that when we raise the rate for money we expect, or we know, that it has a very strong tendency to reduce the internal price level, and when we lower it we hope very often that one of the results will be to raise the internal price level. I think that is pretty common ground. I need not go through that. But one would be wrong in supposing from that, that in the long run periods of high money rates are periods of low price level. On the contrary, over the last 40 to 50 years the coefficient of correlation between money rates and price levels is a direct one. That is, when money rates have been high price levels have been high, and when money rates have been low price levels have been low to quite a significant point—probably over ·7 is the correlation co-efficient.

3736. *Mr. Keynes*: Did you say, in the long run, one would expect to have high prices with dear money?—I am sorry. I will not call it dear money, because that is related to the immediate demand and surroundings, but taking the long view it can be said that periods when the price of money has been relatively high have been times when the price level has also been high, and despite a number of conflicting circumstances, the correlation is fairly high. It is ·7 per cent.; it was higher in the period up to the War than it has been since, but not much. It has been even higher since the War, if you put the price level a year behind the Bank Rate to allow for the lag. I am not pretending that this is cause and effect. Those long period results are really common results of a single cause. It might be said, if the short-period relationship is an inverse one and the long-period relationship is a direct one, at some point the curve must turn over, at some period that is neither short nor long. I do not think that is so. I think you have really, as it were, a main orbit and then a lot of little orbits going in the reverse direction round it —to use an astronomical figure—and I do not think there is any contradiction in that, or any necessity to find an intermediate period of change-over. We all need to get it out of our heads because we are talking of these short-period effects that it is necessary in the long run that there should be that relationship. When it comes to the immediate effects of raising the Bank Rate, and other methods which affect the price level, I think the influence upon the volume of enterprise of the volume of credit and the price of that credit respectively are not invariable in relation to each other.

3737. *Chairman*: They are two different things?—They are two different things. Some people are inclined to say that the price does not matter, and others to say it is the volume that does not matter. I think that price is sometimes all-important, and sometimes volume is all-important. Sometimes price is almost inactive—ineffective.

3738. You might develop that a little?—I think that in boom times high rates are not effective. They are sometimes swept aside as if they did not matter. Men will pay almost any price for money, and the only thing to stop them from headlong disaster is to ration credit, or make it extremely difficult to get. You can push the rate up, and it does not stop borrowing; they have lost the long-run perspective. But I think in dull times it is the price that matters most—the larger or smaller volume of money least. What looks like deflation of volume causing the dullness may be shrinkage of volume resulting from it. That is very important, because people are apt to look upon the amount of credit as really being the causative thing at every point. Sometimes it is the result. I think it is very easy to confuse cause and effect, but in the long run, volume is the cause and it certainly is when business conditions get a rising tendency or an expanding tendency. Supposing you have a change from 3 to 3½ or 4 per cent. and a constant volume of available money in fairly normal times, and you change the rate from 3½ to 4, that will have a less vital effect upon business than if the rate remained at 3½ or 4 and you periodically altered the volume of money by seventh or eighth parts.

3739. *Mr. Keynes*: Do you mean the nominal rate or the effective rate?—I am thinking of the effective rate. I am thinking of the price of money generally.

3740. You think that if you could vary the volume of credit it would have an important effect whilst keeping the effective market rate unchanged?—No, you get to a difficulty when you get beyond a certain point.

3741. *Mr. McKenna*: It is quite possible to vary the quantity?—Yes, you can.

3742. You can vary the supply of bills?—Yes. What I am saying now only goes to prove the truth of the Bank Rate policy and open market policy having a shifting relative importance according to the general level of business. It is not the same at all points, and it is very difficult for me to be dogmatic and say in all conditions I think one is more important than the other.

3743. *Chairman*: You have, of course, studied the question of the effectiveness of an alteration of the Bank Rate and of variations of the Bank Rate as affecting credit?—Yes.

3744. We have heard a good deal about the effectivenesss of it, what are its purposes, and how far it achieves them.—Sometimes it is much more effective, of course, for its international object. Sometimes the international object is bought at a price.

3745. *Mr. McKenna*: You call it effective or not according to whether it is close to the open market rate or not close to it?—I do not think the Chairman meant that kind of effectiveness; I think he meant supposing you got them together did they do anything, and what do you want them to do. That is the thing to ask when you say, "Is something effective"—what do you want?

3746. I thought the word was used in the technical sense; the Bank Rate is effective when it is in close relation to the market rate. (*Mr. Brand*): That is the City use of the word?—That is the City use of the word. I think the Chairman was using it in a wider sense, as effective in the country or in the world.

3747. *Chairman*: I should like to have it discussed from both points of view. I can quite see that effectiveness as regards maintaining the price of money in the market is one thing and effectiveness for larger purposes is another. In your mind—I do not ask you now as a Director of the Bank of

England, but rather as one who has studied these problems—what is the object you have in view in altering the Bank Rate?—What it should be, what it has been, or what it is now? I will answer it this way: that, the gold standard being what it is, your main object is to make the gold standard work internationally, subject to the other effects not being too great a price to pay for success in the main object. I think that if you can use a change in the Bank Rate, where it is not intended for any international purpose, to ease the home position, that is also a purpose; but one has not been free or able to use it so much in the latter way of late years until quite recently.

3748. Has that been because of the natural preoccupation with the international position?—Yes. I would say you cannot judge the use of Bank Rate for these internal purposes by the history of the last four or five years, which has been one of constant struggle against the storm from without. The Committee, I am sure, does not want from me any disquisition as to how putting up the Bank Rate in the long run lowers prices or makes for the lowering of prices. The causes are partly real, partly physical, and partly psychological. Take one point where it operates perhaps as quickly as anywhere; it is not the only point, perhaps not the most important point, but it is an effective point, and that is the merchant's margin. The merchant who is only just getting through on the *status quo* finds the Bank Rate up against him; he cannot do any more business on that margin, probably he stops buying, and that lesser demand lowers the price at once of the sort of things he buys. Other people who have a better condition of margin can buy at those lower prices and therefore sell at lower prices, and they immediately start doing so. Then psychology for others not so vitally affected sets in. I can describe it best in this way: The animal that is after you may be only a dog, but if you think it is a wolf you will run just as fast from it as if it were a wolf. So this psychology concerning the rate brings about a state of affairs that intrinsically need not exist. Therefore I think that industry in future might quite comfortably see alterations of one-half per cent. either way in the Bank Rate made for international purposes, for the purposes of the flow of gold internationally, without getting in the least excited, and without anything happening more than the natural circumstances necessitate. I think that those smaller alterations in the future, if you could get them made, without ill-effect, might establish a new psychology. The past five or six years are not a good laboratory test of what the Bank Rate alteration must always be.

3749. Apart from the fact that the Bank Rate has been necessarily utilised in the past half-dozen years for the purpose you have indicated, in normal times is its use dictated, or ought it to be dictated, by internal considerations as well as external considerations?—Certainly, if the outside conditions allow, and there is no "depression over Iceland", or anything of that sort, then it seems to me the Bank can focus on home conditions and make money as cheap as the situation will allow.

3750. Was I right in saying that the preoccupation of the Bank with the international position was a necessary preoccupation in the last half-a-dozen years?—Well, having returned to the gold standard you have to play the game according to the rules.

3751. I was thinking of the question how far the policy pursued by the Bank in recent years is a legitimate subject of criticism; whether they have concentrated unduly on the international aspect of it and disregarded the internal aspect, and whether that has been in consequence of the return to the gold standard?—Having accepted the gold standard, you could first of all ask whether the consequential steps were necessary for external protection, and then you could say secondly that any internal price was not sufficiently weighed against it as a set-off, and in the third place you might say that where the international situation was not involved sufficient solicitude had not been paid to internal conditions. You could put those three types of question.

3752. *Mr. Keynes*: Do you think the volume of credit in this country during the last four or five years has always been the maximum compatible with external conditions?—During the last four or five years no, I should think not, although I hesitate to say it has been far out over most of the time.

3753. There has been a very marked stability, since the statistics have been published, in the balances of the joint stock banks?—Yes.

3754. One would suppose that external conditions, though they would not always have been uniform, would have allowed greater variability?—I think it could have been varied more, but how much more I have never studied.

3755. It has been pointed out to us that seasonal credit would not appear to be necessarily restricted by reason of external operations?—No; due entirely to internal movements.

3756. Is it desirable that the volume of credit should be reduced every spring, from the accidental fact that the larger quantity of the Bank of England balances is on public account and a smaller amount on private account?—No; I doubt very much whether that kind of reduction for a short period gets very far in industry; it gets into the money market but I doubt very much if it affects industrial development in the long run of things—a reduction for a short period for a known reason. It may do. I have not studied that closely.

3757. *Chairman*: It could be very readily corrected, could it not?—By an open market policy?

3758. Yes.—Rather than by a Bank Rate policy?

3759. Yes.—Yes, I should think so.

3760. *Mr. McKenna*: Leaving on one side the point of the usual spring reduction, and dealing only with the comparison of this year's figures and last year's figures, I find that the latest figures that we have are for the month of February this year. On those figures there is a reduction of the banks' deposits of £63,000,000, compared with February, 1929. Would you say that there was any external reason for that reduction in the deposits of the banks?—Well, I have not checked that exact figure; I should rather suspect that if you went back a year you would find that in February, 1929, there were very special national reasons, special reasons connected with Treasury Bills and prospective Government issues, that made rather an exceptional position there. I am not sure that it is a fair comparison. I have not looked into that, but that is my impression.

3761. Let us accept as an assumption that it is fair. Supposing we find as a fact that it is fair, do you know of any external reason why the deposits should have been reduced by £63,000,000 in that period?—During the period from the point of maximum holding of gold by the Bank, about the beginning of June, up to the point of minimum holding in October I think the Bank lost about £30,000,000 of gold, but during that time they bought £40,000,000 of securities; they actually increased credit at a time when some have suggested they were restricting, and there was great stringency. That does not look like a policy of restriction. So if there is no actual policy of restriction one looks for other reason for change, and then you get to the point that I made fundamentally, that you must not assume always that altered volume is a cause: it may be the effect. I am not making any accusations or aspersions; some people conceive the ideal credit system of the country to be a Central Bank feeding out and taking in a certain amount of credit, the whole of the rest of the banking system being a sort of pantograph that works upon this little picture and makes it ten times the size. I do not think the ideal banking system is like that at all. I think the ideal banking system is to pick up, with all its numerous tentacles all over the country, the detailed requirements of industry and to meet them direct, passing them on much more collectively than now as requirements on total volume. The clearing banks should absorb the minor variations, and the central bank be affected only by the major. Supposing the world price level goes to such a point that 1,000 units of home effort in the home product can be represented in the world production by a monetary figure only one-half of this total, no power in this country can keep the total monetary expression of our constant activities at the old level. Therefore, whatever you did to maintain volume something would have to give way, and the thing must shrink. It might, therefore, be—I will not say in this particular instance it was—that there was a possibility of a further general fall in the world price level, so that the total amount of available credit was no more. The wonder is that it was not much less.

3762. If there were too much credit, and the amount of credit were necessarily reduced because of bad trade, would not the excess of credit have shown itself by a decline in the exchange, and gold leaving the country?—That, of course, would be the ultimate operation of the gold standard.

3763. And if, on the contrary, we find the exchange rising, and gold coming into the country, may we not assume that that condition of excess of credit did not exist?—Beyond a certain critical point, yes, but there is the kind of marginal field in which that need not happen.

3764. Then must we not look to some other reason for the reduction of credit which actually took place in the year?—I thought you gave me the assumption that it remained the same, and did not fall; cutting out to begin with any excess due to special reasons, but assuming that there had been no increase in credit.

3765. There has been a reduction in credit. If the reduction had taken place because it was not required then there would have been an excess over what was required before the reduction took place?—No. If you are taking off this large sum which you speak of in February—if you allow me that—I have not looked into it, and therefore I cannot say, but I rather suspect there were special reasons at work in February—and if you put to me the question why the amount of credit has remained constant, why has it not gone up, I should say I would not necessarily expect that it should go up, or could go up.

3766. I am not saying the amount of credit should go up, or should necessarily remain constant; I am dealing with the fact that it declined £63,000,000 between February of last year and February of this year?—I should hardly accept the declension until I had examined all the figures to see if the year was a normal one. I suspect there were very special abnormal conditions between February this year and February last year. I am not contesting your point. All I say is, I am not agreeing with it with undue alacrity.

3767. If you look at the Bank of England figures you will see there was a great reduction in the securities of the Bank of England in the month of February. I would suggest to you that the sale of those securities in the open market was due to the desire of the Bank of England to make the Bank Rate effective in the technical sense?—This year?

3768. This year; it was due to the desire of the Bank of England to make the Bank Rate effective in the technical sense; that is to say, to reduce the quantity of credit in the market in order to keep up the Bill Rate and bring the open market Bill Rate close to the Bank Rate. I suggest that was the reason why they went into the open market and sold securities?—If so—and I do not admit it—the alternative, of course, was to reduce the Bank Rate down to the rate in the market more quickly. But there were countervailing considerations.

3769. The market rate was falling very much faster than the Bank Rate came down; there was very much more than one per cent. difference; and I suggest that the Bank of England, in order to make the Bank Rate effective in the technical sense, restricted credit, hoping thereby to maintain the open market rate in relation to the Bank Rate?—The corollary to that must be that if they were to have an effective rate they should have reduced the Bank Rate to the rate in the market. Am I to suggest that they should have done that instead?

3770. The corollary was that they should have reduced the Bank Rate to the rate in the market, and they did reduce the Bank Rate by successive steps, half per cent. at a time, but they never caught up to the rate in the market. I suggest to you that the reason why the Bank of England sold those securities was in an effort, an abortive effort, to make Bank Rate effective?—It is too recent, I think, and not sufficiently a matter of history, for me to take it upon myself to say why. There were two alternatives, and they may have done the one and not the other advisedly.

3771. *Mr. Lubbock*: May I interpose, in reference to what Sir Josiah has just said in regard to the view taken by some people that the Central Bank should sit at the middle of things and hand out credit, with the joint stock banks creating ten times the amount as the base of credit expanded? The Governor, when he was here, gave us to understand that the chief consideration that moved him in his open market operations was the state of the short-term market. Do you think that is a fair criterion? I mean in this sense: the Bank of England is sometimes accused of not having sufficient regard to what I may call the needs of industry. Now the Bank of England is not in touch with industry as the joint stock banks are. The joint stock banks, being in touch with industry, and aware of its needs, might I presume act in this way; they might increase their advances or their purchases of securities, and if their cash proportion fell below ten per cent. it is always open to them to call money from the short-term market. When they do that the Bank of England is always aware of the pressure and might presumably, if there were no "depression off Iceland," as you put it, increase the supply of credit and make up the deficiency in the joint stock banks' cash. It does seem to me to be a question who should take the initiative. Do you regard the short-term market as a fair barometer by which the Bank of England should be guided? The joint stock banks have told us they adhere rigidly to a ten per cent. proportion of cash, and if they are at ten per cent. nothing will move them until the Bank of England creates more cash. You are aware of that? How do you regard that position?—I think in any central banking system there may be two faults which arise from solidity of past practice. I think it would be wrong for the Central Bank to have only one test of the patient's health; it may have a very good test in feeling the pulse, and that may be sufficiently indicative of the trouble on most occasions; but there are other tests—having the patient weighed, seeing to the diet and so on; and it ought to have other tests. I think, however, the banking system would be wrong if the Clearing Banks also, to save themselves from the trouble of thinking, worked on a rigid system—that is really what it comes to—and had a formula and simply carried out that formula regardless of the effects on the country, and threw the responsibility on to somebody else for doing the real job. The credit machine ought to be divided between the two. If it is true that the Clearing Banks refer the whole initiative of expanding and curtailing credit to the centre then you have nothing but a pantograph, but I should think they are then falling short of their possibilities; and if it is true that the Central Banks look only at the money markets, though they may be very excellent feelers, they would be falling short too.

3772. But supposing that the Bank of England sees that the price level is falling and unemployment is increasing, you would not suggest that for that reason it should at once go out into the market and buy securities? You see the Bank if it creates credit, as we know it does, has no control over how it is used elsewhere?—True. And the Central Bank's diagnosis of the position over the whole country, apart from that through the money market, is a much more difficult and remote one than the Clearing Banks, and in a wider system it ought to have the best information from the Clearing Banks as to the position, so that if the money market is not expressive of it there ought to be some quick and ready way by which the Central Bank knows it.

3773. Would not the Bank of England feel it through the money market if the joint stock banks thought it right that there should be an increase of credit and called their money from the market?—I think generally that is a sufficient indication.

3774. They have told us that what prevents them granting further credit is their 10 per cent. ratio of cash; while they are at that point they do nothing whatever, and the Bank of England has no indication in that way that further credit could be satisfactorily used?—We are on two quite different things; one is what, in fact, happens from time to time in this country, and the other is what would be an ideal system if we were really allocating responsibility in the matter. I think the responsibility ought to be divided, and I do not think the joint stock banks are acting up to their possibilities if they go on a rigid ten per cent.; I think it is their place to meet, by proper variations, the first shock to the position, and it is the Central Bank's place to meet the second shock. How far the Bank of England relies entirely on the money market as an indication, and acts on that and no other, I think, is for the Governor and the officers to say, but so far as I have been in contact with their counsels I have always referred to conditions in industry and what I know about it.

3775. You do not think the Bank of England is guided enough by the state of industry?—Well, at present, outside the Clearing Banks, it is very difficult to know how the Clearing Banks stand, and if I were in the position of having the responsibility to judge, except through the money market, I should go to the Clearing Banks at once and want some very different information from what I get at present.

3776. *Mr. McKenna*: I entirely agree with you. So far as my own bank is concerned, we have in the last four years reduced our cash ratio from 15 to 11 per cent. But with regard to the particular point which was asked you, whether we are in communication with the Bank of England as to the borrowing by the money market, whether that indication is a sufficient indication as to the state of trade, I would like to ask you whether that indication could possibly, under existing circumstances, be given to the Bank of England? Let me explain my question. Banks will tell you that they have all lent as much in industry as they think they are justified in lending if they are to maintain such liquidity as their depositors have a right to expect. If, in those circumstances, the banks are right in thinking they are lent up to the hilt, and more demands are made upon them, the effect of their meeting those demands by calling money from the market would be not only to reduce their cash ratio, but to render themselves less liquid by transferring money at call to money lent to trade, which cannot be called. (*Mr. Lubbock*): Forgive me interrupting you. You said by so doing the banks would reduce their cash ratio. By calling money from the market they would increase their cash; they would reduce their money at call. (*Mr. McKenna*): They would reduce money at call from the market solely for the purpose of lending again. That is the assumption. If they lend again their deposits increase, and they ultimately reduce their cash ratio. But assume they go back to their cash ratio and do not lend more than is necessary to maintain that ratio, they have still reduced their second line of defence, money at call, and they have increased the percentage of advances, which the banks believe to be already as high as in the interests of their depositors they ought to allow them to be. (*Mr. Lubbock*): They might increase advances to a certain extent and buy other securities. I quite agree they would reduce money at call. (*Mr. McKenna*): The assumption of the banks is that they have reduced their liquidity to a minimum; that they cannot go any further; and, dealing with that assumption, which has been publicly expressed again and again, I put it to you, Sir Josiah, as to whether it is obvious that in no circumstances could the market be driven into the Bank of England?—Of course, if they are absolutely at bedrock then my argument fails.

3777. *Mr. Keynes*: If they are not, is not your suggestion rather shocking?—Very likely.

3778. That is to say that the quantity of credit in the country should be taken out of the control of the Bank of England and that we should get into the pre-war position of the United States?—No, that is carrying the analogy too far. You are not dealing with 20,000 irresponsible unconnected banks, you are dealing with the five big banks and just a few others in the clearing system, and the utmost variation that I am thinking of is not a variation on either side from normal that would bring about a disastrous situation. They take the first moral responsibility for meeting the changes.

3779. You simply encourage the banks to get down to bedrock. Supposing the money they require for clearing is eight per cent. against the eleven per cent. they hold, you would simply encourage them to nibble at that until they got down to eight per cent., and that would mean that the resources of the Bank of England would permanently diminish?—Only if the result of my policy is continually to drive them down to a fresh minimum.

3780. *Mr. McKenna*: It has been. (*Mr. Keynes*): If you once tamper with this frail convention you must have a new one?—I do not want a new law, but a new convention may work just as well, or better than the old.

3781. *Mr. Lubbock*: The suggestion was that if the joint stock banks' ratio of cash fell below ten per cent. the remedy would be for the banks to call money from the market. You were suggesting that that might go on and the Bank of England might lose control, but I was assuming that the pressure put on the money market was immediately felt by the Bank of England and it is then that the Bank of England has to consider what course should be taken. If the foreign situation is threatening and the Bank feels that it cannot create more credit it simply waits, and the market borrowing is a sign that the market is tight?—I am not at all impressed with the sacredness of the convention of ten per cent. There would be very little difficulty if it were altered.

3782. *Mr. McKenna*: Are you not proposing something that might have been equally well proposed five years ago? We acted upon it; my bank liberated £14,000,000 of cash. What happened? The Bank of England sold securities and obliterated the effect of what we had done?—If the only result of what you did really was that the Central Bank took absolutely the converse action, for no additional reason, then my argument goes.

3783. *Mr. Bevin*: Before this discussion started Sir Josiah Stamp had got to the point of saying that if he held a position of responsibility there was a certain type of information he would want. I am rather anxious to know what is the type of information he would want if he held that position of responsibility?—I speak under correction, because I have not prepared evidence on this, but at present I think all I should have to rely upon would be the monthly statement of the banks, which is made up of the average of specimen days for four weeks, and the particular days are not the same for each bank. The same money may shift from one to the other and appear twice or be altogether missed. Therefore, as a test of the real position of the country, the statement is practically meaningless. You do get also a half-yearly statement of the banks' position which should be more exact, as it relates to all the banks for the same day; it may be exact in that sense, but it is actually quite abnormal, as you can see by comparing the position of the Bank of England at this particular date with two or three days afterwards. You can see the way the money returns from the market for the purpose of——

3784. *Mr. McKenna*: Window dressing?—Thank you very much; I was trying to find a euphemism.

3785. It is a very wrong practice?—After all, the first information is completely out of date historically before you can use it; therefore, I should want to get the Clearing Banks together—I have not thought this out—and have some definite statistical return in a common form on a normal date for a normal period, and have some report with it of the reasons why it is varying, showing the circumstances of industry as distinguished from Stock Exchange and other financial movements.

3786. *Chairman*: We will ask you later on what suggestions you have to make for the improvement of the existing relations between the Bank of England and the various banking agencies in this country; but I am anxious to get from you a more or less complete picture of your diagnosis of the present position, which is what we started on, and your criticism, if you have a criticism, upon it. Would you prefer that we took your evidence, so to speak, in compartments, putting questions to you on each topic as we go along? I want to get the best I can from you?—I would like to make a short statement on each point. You will stop me if I am saying something that the Committee has already heard or does not want to hear. I will speak for three or four minutes and then listen to any questions.

3787. We want to get the best from you, because the many topics you raise are not only interesting, but almost, I might say, provocative. One does not want to break into your statement; but it is useful that points should be put while they are fresh in the minds of the Committee?—I would like finally to say to Mr. Cecil Lubbock that I do not think the Bank of England has facilities for a very close and accurate knowledge, outside the money market, for meeting the particular situation he means; and I think that the money market on the whole is in general a pretty good indication.

3788. It may be a question whether they should get other means. Perhaps we may come to that when we consider your improvements and suggestions?—Yes.

3789. *Mr. Keynes*: May I put one of the points which will elucidate one difficulty I feel? Take the money market as it is. Supposing the state of employment and of the price level is such as to indicate improving trade and a need for increased credit, and the Bank of England increases the basis of credit by £10,000,000, so that the deposits of the joint stock banks go up by £100,000,000. The practice of the joint stock banks is to have a certain proportion of their deposits invested in bills and call money, so that the effect of the increase in the basis of credit is to increase the demand of the banks for that particular kind of asset to a figure, shall we say, of £20,000,000. The floating supply of bills in the market is not very large, as we have been told in evidence already?—No.

3790. Therefore the additional demand for any substantial quantity of bills, either directly or through the banks, or because the banks are lending more call money to the brokers, would mean a rapid weakening of the bill rate; and a rapid weakening of the bill rate would have an equally rapid tendency for bills to be discounted here which have previously been discounted at New York, and so lead to a loss of gold. It is just that the technical contrivances of the banks are such that whenever they invest a further £100,000,000, £20,000,000 of that must take the form of a particular kind of investment which is very sensitive to international considerations. It might be that the Bank of England, attending only to the money market conditions, would not always observe that, whenever it increased the volume of credit, the bill rate would weaken. The effect of attending to the money market would be almost immediately to reverse whatever the Bank had been doing, and, therefore, it must tend always to maintain the *status quo*. But if the Bank of England supplemented its existing technique by a further technique by which it let out the appropriate quantity of a particular kind of assets, namely, the bills which the banks require in order to maintain their tradition of liquidity, then you would not get this repercussion. Supposing when the Bank of England increased the basis of credit in that way it let out Treasury bills from the Issue Department, replacing them by long-dated securities, you would not get this condition. I suggest to you that actually in the last four or five years, by attending to money market conditions, without going into the analysis that I have just followed out, the Bank of England would always tend to reverse one week what it had done the previous week?—I cannot say that I have studied it sufficiently to accept that particular definition of a vicious circle into which we may get, but I think there must be a lot in it. I think there is a tendency in a situation in which we think we are exercising free will to find ourselves in a state of determinism.

3791. It is the accident that, *pari passu* with lending to trade so many millions, the banks must adhere to the tradition of simultaneously investing another number of millions in bills in order to preserve their liquidity?—It is for the purpose of liquidity.

3792. You cannot increase credit to trade without weakening the bill market, unless you are simultaneously increasing the volume of bills?—I do not dissent from that at all. I would like to examine it a little more closely to see if I agree on the other point.

3793. *Mr. Lubbock*: My point is not exhausted, but I do not wish to go on with it at present. There is a lot that could be said with regard to the point which Mr. Keynes makes, but I think the Chairman's suggestion that we should get the witness's views on the various points is really the best method of getting at the evidence?—I do not want to give the Committee the impression that I am posing here as a banking expert. I know very little about it. I am only feeling my way with a little experience in a field with which I am not very familiar.

3794. *Chairman*: You have had a remarkably wide experience of public affairs generally, and your views are informed views of a person who is conversant with affairs. You may not be technically in the position of an expert, but your views are of very great value to this Committee.—Thank you.

3795. *Professor Gregory*: I would like to return to some of your earlier statements, because they are important in getting your general view upon these matters. I would agree that there is a tendency to say that there is over-production when one has the kind of feeling that one does not like to admit that the gold standard is working rather badly. Would you be prepared to admit that the raw material situation at the moment can hardly be directly associated with any gold situation whatever? It is partly the effect of the reaction from the American boom and partly the direct effect of certain price policies as applied when the general tendency of world prices was downwards?—That is only putting the monetary cause one stage back. Those two things are more or less related to monetary causes.

3796. One step back is perhaps important. I do not know, but I should be inclined to say that, whatever happened to the general level of prices, if you encourage the Argentine, or any other country, to go on producing wheat because you are keeping up the general level of prices, you must have a very rapid decline, such as we seem to have been getting in the recent month?—You get into a position of *malaise* through monetary causes, and you start all kinds of stunts to rescue the situation, which ultimately topple over and aggravate it. Those particular causes, the pools, and withholding of stocks, are all attributed to over-production and the like; but they all came about originally because of monetary lack of comfort.

3797. They came about because in the period after the war raw material prices were very high because of the world shortage, and some countries tended to keep prices high at the time when prices were generally down. But do not you think that the trouble has been accentuated by economic policy rather than monetary policy?—I agree; but I say that those causes that you put are also monetary. They will be found to have their origin in monetary difficulties.

3798. Undoubtedly that is part of the origin. The other point is this. I am not quite clear whether it is your opinion that the shortage of gold is beginning to operate already; or whether that is a contingent danger lurking ahead. The actual physical output of gold is still rising?—Yes; it is contingent. I think the shortage of effective gold taken away to non-monetary uses is beginning to have its effect.

3799. When you were referring to the sterilisation of gold, were you thinking of what was happening on the Continent, or of what has been happening in the United States?—Both.

3800. They are rather different?—They are different in origin, I know.

3801. And rather different in their effects. If the United States had allowed their prices to rise as they got an enormous quantity of gold in between 1923 and 1925, the ultimate consequences might have been even worse than those associated with sterilisation?—If they had let them go too far; but if they had let them go far enough to get us out of our 1925 difficulties, I think we might have been happier. May I resume?

3802. *Chairman*: Certainly.—On the general question of the operation of the gold standard, I usually put it popularly that the gold standard is now more difficult to work successfully because it is trying to do two jobs which are not really exactly comparable, and not very closely linked—not closely enough linked. The two functions that gold has to perform formerly worked pretty closely and simultaneously; but now they are only remotely connected. It has to serve as the basis of internal prices, which really is in the last analysis a determinant of the division of the product of industry, and at the same time it has to act as a balancing item for large payments which have very little relation to prices, which, while dependent on the world nature of investment conditions, including interest and war loan principal, are now much more dependent on the world nature of investment markets. Things which are not closely related to the movement of prices and other psychological elements swing great masses of indebtedness all over the place; and so you are trying to do two jobs with one thing. That is what brings about the position that the gold standard to-day is so extraordinarily hard to operate successfully. I may, at this juncture, mention what I regard as a new danger to the gold standard relating to this widening of the field of public investment. It is something that we have not had before except in short periods of boom. Shall I call it a new form of valuation of business yields? You really have four stages of valuing capital values which direct investments. You see them in rapid succession when you get a specific boom confined to one money market. The new feature is that the third and fourth stages of valuation which have hitherto been a quite temporary phenomenon, are tending to become more permanent, and are having a wider effect. The first valuation a man makes is this—what he will give for a share depends on the cash dividend or income it can afford him capitalised at the rate at the time. The second basis is that he looks not at the cash, but at what the company is earning; and you have a wider range of publicity now about companies' earnings. The Earnings column in America is published as regularly as the Dividend column—based on the return on the current prices of earnings as well as of dividends. He looks at the basis, first of all, of the cash dividend or income it will afford him. That is the old method. Now the growing method is to look at the earnings and buy on that basis. The third method is not what the company is actually earning now, but what he thinks it is going to earn—its developing earnings. A man who is willing to wait a time says: "I am not buying on the dividend to-day. I am not buying on its earnings. I am paying a price which takes into account what it is going to earn in the years to come." I think that method of valuation is much more prevalent to-day than it was. The fourth method of valuation is by the man who does not intend to wait at all, but he is playing a sort of game of poker with the third man. He is prepared to buy a stock on such a basis that he can capitalise it to-morrow and get out at a profit, because he always is thinking there will be a man in the market who will wait for that outstanding future valuation. It is quite possible that the whole market may consist of the fourth lot of people, who all imagine they are relying on the third lot, and they all wish to clear out to-morrow. That is the thing you saw in the South Sea Bubble, and that type of situation. But now it has become an almost permanent feature of the New York market. The consequence is, that instead of the old differentials in money rates shewn in the different markets swinging money about, you have a new feature. You may have the Bank Rate at 5 or 6, or 7 per cent, and yet have a large sum of investment flowing away from it to things which are only yielding 2 per cent, because of this game of waiting for the expected development; and every progressive country plays this sort of financial poker. The consequence of it is that, instead of the ordinary differentials between different centres of money that you had in the past, which have been fully accounted for by specific things, you have now got a minus differentiation, which quite upsets the apple-cart. It seems to me you have an incalculable force attracting money to a country like that that you had not before with this new kind of valuation, this new kind of asset that people value. It is not so bad if it rests entirely upon faith in the developing country, but if it rests on this game of poker, then it is an extraordinarily difficult thing to fit in with the movements of the gold standard. The old differentiation simply meant this, that the real level of the rate of interest in all markets was the same, and the differentiations were additions owing to three things. One was almost an insurance premium for risk of loss in the long-run. The second was the wasting asset in the case of mines and the like; and the third was the amortising cost of the initial expenditure in developing countries. When you have allowed for all those, you have got more or less down to a common level of interest. Now you have in the market a differential which works in the opposite direction.

3803. *Mr. Keynes*: Is not the only remedy to introduce horse racing into the United States?—Some counter attraction is wanted in the United States. That is why I am filled with apprehension to-day at the sign of another incipient boom in New York. Quite modest stocks, decently priced on current yields of earnings, have gone up in the last three weeks 20 per cent. Either they have not learned the lesson enough, or we have to reckon with this factor as a permanent factor in American psychology. In this country, while preaching as a public doctrine for everybody's consumption that we ought to keep money at home invested in English stocks, everyone of us will be privately buying abroad!

3804. *Mr. Brand*: This tendency can only be permanent if the foreign country's progress is permanent?—It is astonishing how long people will go on building up on hope after hope, and in that way you never get to final liquidation. Take the people who believe that the settlement of the Reparations problem is reached by entering all sorts of new items in books—they are prepared apparently to go on till Doomsday. They think they have settled the Reparations question by making further entries in ledgers of promises to pay and carrying them still further on by accumulating interest. Some day it will have to fall on somebody, but it is astonishing how long you can go on in that sort of way.

3805. But that is done by Governments who do not suffer individual loss, and they do not mind?—Whether it last for ever or not, it is a very important difficulty at the present time.

3806. *Chairman*: This is on the topic that the working of the gold standard is confronted now with certain new difficulties?—Yes.

3807. One of them is this new investment spirit?—Yes, that is one of the factors that I see.

3808. *Mr. Bevin*: Can you suggest anything that can check it?—I would like to come to remedies later for the general situation and not take that at the present moment.

3809. *Mr. Keynes*: Your point is not that these shares go up and up for ever but they sometimes go up and sometimes they go down, so that sometimes you have your swing one way, and sometimes you have it the other way?—You have very large balances thrown on to the gold standard which are incompatible with the maintenance of prices in certain countries, particularly in an open country like ourselves, or not a very closed country, as I maintain this country is. I am not on the question of the gold standard as such, but I am on the question of the world fall in gold prices. This country is more vulnerable to its dangers than any other country for that reason.

3810. *Mr. Bevin*: Why?—For the reason it is the most exposed country in having the most highly capitalised and specialised development for foreign trade. Its foreign trade is the largest proportion of the total and is most liable and exposed to be thrown out of gear by such things. If there were a closed industrial system here, we might snap our fingers at these vicissitudes outside and go on producing for ourselves. But it is very highly specialised, and if anything happens to its customers, or to the competitive power of a particular class of factory, it is thrown tremendously out of gear.

The second thing is, and I shall develop that presently, the question of resiliency. Of all factors of production in this country resiliency in regard to wage levels is least at the present time, because they have been settled in good faith in large mass settlements, and it is very difficult, without stirring up all kinds of extraneous questions, political and social, to alter them. By hypothesis, they ought not to be altered except for a really good and clear reason. Monetary reasons are very rarely good and clear to the people.

The third and very important reason why it is more dangerous to us than anybody else is that our fixed national indebtedness, fixed in terms of money, is higher in relation to total income than other countries. If you have got a very large proportion of your national income fixed on a money basis, what happens is this. Suppose it is four thousand millions and you have got a debt charge of 400 millions or one-tenth of that, it is so fixed regardless of prices. You have to pay that anyway. If prices fall that fixed figure represents a much higher percentage of the national income. If your national income in the case of services and goods goes down to £3,000,000,000 your one-tenth becomes more than one-eighth.

3811. *Chairman*: The trouble is we have not an adjustable machine, but a machine which is built up on certain rigid factors at certain points?—Yes. The human elements of rigidity on one side are very great but the statutory elements of rigidity in our national debt and other fixed services are also very great.

3812. Those things are not under our control?—No, that is a fixed feature in our landscape. That is a particular difficulty we have.

3813. *Mr. Keynes*: You have a further difficulty that we have a very much larger amount of wealth in financial institutions that are well accustomed by long experience to hazard their money abroad?—Certainly; I was thinking of that when I spoke of ourselves being rather more entangled in international directions. I did not speak only of real export trade, but I spoke also of services.

3814. *Chairman*: You might explain the answer which you gave as to the difficulties of working the gold standard. That might lead later on to indicating methods whereby the working of it can be assisted. Are we to take it, in your view, that the gold standard, as a working basis at the present time, is embarrassed by a number of circumstances which prevent it having its full economic effect?—Yes, I think we had a serious embarrassment in the original handicap, the hidden handicap, at the time, of resuming the gold standard. We start with that. We superimpose upon that a general difficulty and that general difficulty is greater with us. It does us more harm than other people.

3815. That difficulty has its different branches which you have brought out?—Yes.

3816. Such as the amount of indebtedness, with the fixed rate of interest that we cannot touch?—Yes.

3817. The fact that we are more vulnerable than other nations gives us our peculiar monetary position, and there are other rigid elements in our economic structure at the present moment, so that we do not get the responsiveness that is desirable?

—The whole theory of the gold standard assumes a reasonable resiliency in all the factors of production, and it also assumes that the division of the product of industry is absolutely fixed in terms like debentures, War Loan interest, and so on. I think that feature is not essential to the gold standard, but it does mean that you cannot have wildly fluctuating prices without a certain amount of hardship. The actual mechanism of the gold standard within limits, though affected by one of these factors, remains practically constant.

3818. It has been put to us by way of metaphor by one witness that the gold standard machine has "jammed" at present?—Yes.

3819. *Professor Gregory*: May I ask you a question arising out of what you have been saying? This flow of international balances motivated by the desire to earn profits at certain interest rates was more or less present before the War, though not to the same extent?—Nothing like it.

3820. Would you agree that what makes it particularly difficult for us is the deviation of that factor from wage costs and other domestic costs? Supposing we were at a price level 10 per cent. lower, this particular movement, though it might be dangerous, would not be so dangerous as it is now?—No, it is its cumulative effects which are dangerous. You can manage one of these difficulties at a time. We might have managed the 10 per cent. gold standard difference point by itself. We might have managed the recent drop by itself. We might have managed the new feature in the New York market by itself. But all those factors combined make the gold standard difficult to work at present.

3821. *Mr. Keynes*: In fact, impossible?—That may be so.

3822. *Professor Gregory*: My second point is this. Assuming that the New York situation were the only point to consider, it would be relatively easy to correct, would it not, provided we could take the public into our confidence and show that the movement of gold from the States and back again was a perfectly normal thing?—I think there is a lot of psychology about that.

3823. That is a way to meet that particular difficulty, merely by educating people towards realising that mass gold movements are going to be much more frequent than they were before the War?—If you knew it was going to be permanent, you might leave a store of gold out there to meet it, and make your own people by indirect means pay for it.

3824. *Chairman*: Do you think it is accurate to say that the machine has jammed.—Yes, I have said that myself even before this Committee had invented the term. I think it is accurate to say that. May I go on with my statement?

3825. Please do.—I think that the real wage level —I think it is so in America as well as in this country—is materially higher in general than the output equivalent per capita allows, taking industry as a whole. Also, of course, the export industries are loaded with higher costs that result from the bad "spread" of whatever the real wage is over both industries sheltered and unsheltered.

3826. The export trades are carrying the sheltered industries on their backs?—They are carrying part of the bad "spread." There are three things I would do, if any of them were politically possible, to start getting the thing right. The first is to get a better spread of real wages between different industries. The second is to get a reasonable resiliency in wages and in the cost of living index, and, thirdly, to get international gold co-operation; but all those things are politically impossible.

3827. *Mr. Brand*: You mean that the average wage is too high, but some may be above the average and some may be below?—I will not use the words "too high" because that is liable to be read in an invidious sense. The real wage level is higher statistically than the output per capita as a whole allows, taking industry as a whole. May I develop that for a moment? If the national output is regarded as being put in a heap or in a bag and by something that happens externally the people are entitled through their real wage rising and prices falling, the money wage remaining the same, to go to that bag and take out a larger quantity, those who are strong and get there first get rather more, but presently some people come along and find nothing left. That is unemployment. A real wage which is higher than the *per capita* output at the margin infallibly means unemployment. The two things are theoretically related. They can be shown statistically also to be exactly related. I worked it out in this way. I took the money wage and turned it into the real wage by the division of the price index at the time when the national output was not changing very much over a period. I put that directly in relation to the unemployment figures and the co-efficient of correlation taken over a period of six years was as high as 9.5. That is up to 1926. It is probably not quite so high now. I have not worked it out recently. I think I would like to do so and give it to the Committee. You can have then the higher real wage without unemployment if the national output is increasing per head. If it is remaining stationary, then it is a question of arithmetic.

3828. *Chairman*: It is automatic?—It is automatic. So long as that is the main position you are bound to get more unemployment if the real wage goes up without a real increase in the *per capita* output. At the present time, apart from technological questions, a good deal of unemployment in the United States is also due to their having pitched the wage level rather higher than the actual output.

3829. You are speaking now of real wages?—Yes, real wages.

3830. *Mr. Bevin*: I am always interested to ascertain what economists mean by real wages. On what basis do you found it? For instance, you make this calculation and you say the difference between the money wage and the real wage is so much per unit. Exactly how do you arrive at what the real wage is, or ought to be?—Well, I do not want to be taken as giving you any one thing that is used by all economists for that purpose, but I will deal only with the general principle. In general, it is the variation in the total units of commodities taken as a whole that a wage earner would get for a given unit of work. Of course, at the present time, the situation is that the employer is suffering a far greater burden than the wage earner is enjoying an advantage. There is not only a jam in the resiliency of prices, but there is a jam between the cost of living index and the wholesale index price and a very serious one too. It is a purely self-sustained vicious circle.

3831. *Chairman*: Profits are suffering worse than wages are benefiting?—Yes, I think so. At any rate, it is very difficult to go to the wage earner and say to him: "You are getting a much higher real wage than you ought to have, and you will have to take a reduction in your money wage," if the cost of living index does not move more rapidly with the wholesale prices.

3832. *Mr. Bevin*: How do you measure the commodities which go to make up a man's life? That is what rather puzzles me. Where do you start? Where is your point?—What year do you measure from?

3833. Yes.—It does not much matter where you start. If you take variations from year to year you can start in 1913, or you can start in 1920.

The variations from year to year will be pretty much the same. The technique of building up the cost of living index is rather an intricate matter, but I will go into it if you like. As you know, the old cost of living index had its basis in the expenditure of the average working class household as measured by a certain number of tested budgets. Then came the statistical problem that, if these budgets became modified and they originally contained oranges, but people no longer liked oranges, but ate bananas, you had a false cost of living index. Then people had to take a new household budget, and in order to get the ratio to the original 100 you had to work backward on the new conditions. Perhaps it now contains hypothetical bananas, which did not exist in the past year. In compiling a cost of living index, you have to see what matters you should retain in the indices by trial tests of a number of household budgets on which it was based. Then you can take the old forwards and new backwards ratios, and sandwich or relate them together. But when you have done all that, there is no very material difference, or the difference is only materially important, when you are dealing with one or two per cent., but not over a large range.

3834. Except that the measure of commodities entering into the standard of a workman's life now is much higher than when the last budgets were taken?—I am not quite sure I have caught your question.

3835. What was a luxury and what was not taken into account twenty years ago is now a necessity, is not it?—I agree there may be statistical difficulties in any cost of living index.

3836. I am wondering how you measure this principle of the real wage, because I cannot find any measure for it. I have heard a good many witnesses talk about sheltered trades and unsheltered trades. If one may take your own trade, we hear that the railwaymen's wages are high. Well, it takes a jolly good chancellor of the exchequer of a wife to make them reach from Saturday to Saturday. I cannot measure this real wage and this money wage as being too high in the sheltered trades?—That is why I did not use the word "high." I do not say the wage is "too high," because that always connotes certain relative considerations which I want to keep excluded. I revert to the economic doctrine. I say that at the margin, if you are going to have a stable industrial situation, no man can be obtaining more in commodities than he is producing in commodities. If you were to pay him in bread you could not pay him ten loaves if he were producing eight in the long run. You have to test the marginal output of a man.

3837. *Chairman*: Is not the general answer to Mr. Bevin's question that when you talk of real wages you are thinking in terms of purchasing power?—Of commodities. I am not using them in the sense of too high or too low—that a man "has not enough to live on" or "ought to have more." I am not using it in any such sense as that, but as indicating the economic equilibrium point beyond which you cannot go for very long. I want to tell the Committee presently what I think can be done, and what has been done, anyway, for a time, with regard to altering economic equilibrium.

3838. Again, to be quite popular, one may be paid less and be getting more for one's money?—The general psychology of the worker to-day, and, probably for generations ahead it will be the same, is to prefer a rise in money wages, even involving a fall in real wages, to a fall in money wages even involving a rise in real wages.

3839. It is very human. If you suggest to a person who is getting £300 a year that he is only going to have £200, that is a dreadful shock to him first of all, and he will probably not believe you when you tell him that he will be able to get more food, more clothes, and more amusement for his £200 a year than he was getting for his £300 six months ago; and, of course, it will not be the case unless there is a corresponding fall in prices?—May I hasten to add this? It is not the worker's optical illusion only, but it is the business man's also. The business man suffers just as much in times of rising prices from the fallacy that the profits he is getting are really profits with the old purchasing power. To him he thinks he is doing something very clever when he is making big profits. As a matter of fact, it is automatic and is as easy as falling off a log.

3840. I have still got a sort of glow of satisfaction when I get 6 per cent. for a thing on which I only used to get 3 per cent. or 4 per cent., though I know in fact the 6 per cent. is only worth 3 per cent?—Yes.

3841. *Mr. Brand*: A business man gets these profits in a period of falling prices no more than the workman?—Yes. It was very obvious to me when I was working the Excess Profits Duty, at a time when I think Mr. McKenna will acknowledge that I had plenty of opportunity of seeing how the business man reacted. It was a wonderful incentive, but he never really got any nearer to the carrot. You have always the reaction of that kind of psychology so far as wage adjustments are concerned.

3842. *Chairman*: Is there no possibility of the true gospel of economics being brought home to the country?—Within a generation do you mean? Unfortunately, every generation has to learn the whole problem and get over all the original fallacies each time.

3843. It is a very cruel school?—Very cruel.

3844. The position is that the process of adjustment seems itself to aggravate the confusion, because you may have a vast amount of strife which in its turn reacts upon the position and deteriorates it?—That is true.

3845. The process of adjustment itself is uneconomic?—You can only learn a general principle through its outward or objective manifestation in the ordinary way, except in the case of a few people.

3846. You say we have got to expect unemployment as an automatic consequence of certain economic truths which you discern at the present moment?—That is another problem. I am speaking of whether you can educate people to look only at the goods side rather than the money side, and avoid these monetary illusions. That is a very slow process. Whether we shall invent correctives to the faults that arise is another matter. I do think, if we had a general rise in gold values, all over the world, quite probably it would put us out of most of our troubles.

3847. If we were all perfect economists and educated by you and Mr. Keynes we would then accept all these things with complete equanimity, realising that there was some law of political economy operating?—I am afraid the influence of Mr. Keynes would be so paramount that the question should be addressed to him.

3848. *Mr. McKenna*: It seems to me you are telling us that a dose of inflation universally accepted would cure our evils?—The world has lived for 500 years on continued doses of inflation, in one sense, with the price level apart from short periods continually moving upwards. We have always been robbing the man who did the saving in the past but inasmuch as he is probably dead it does not worry him. I do not know, on the whole, that it has been a bad thing. If this is a common feature of human psychology, history has recognised it right through.

3849. I think it is best to recognise it?—Provided it is slow enough and does not bring too great a variation in its trend.

3850. Too great a variation?—Yes. I would say that the ideal condition is probably a very slow rise in prices over a century. After all, while we do not want rapid changes, or short period changes, because of the altered distribution of income they bring about I do not think that the altered distribution that a slow change brings about, even if it is 20 or 30 per cent. over a century, matters very much—at any rate, it does not matter very seriously.

3851. *Mr. Keynes*: The only Roman emperor who deflated was assassinated.—I should think so.

3852. *Mr. Brand*: You said there was a jam between the cost of living figure and the price of wholesale commodities. Is there any real monetary cause?—I would like to come to that as a separate matter. It is puzzling me very much. I want to deal with it if I can. The point is how can you go to a wage earner and say you must have a drop in wages because there is a drop in prices. He would say: "Where is the drop in prices? I cannot buy any more jam or any more butter."

3853. *Mr. Bevin*: In 1921 when you started your period of deflation you had the reverse procedure. The fall in the cost of living preceded the fall in wages by at least two months by the operation of the sliding scale?—You had a large number of people on the cost of living index automatically.

3854. But it did precede it?—Now there are a number of people theoretically on it. They are most of them at the minimum and it is not really very important.

3855. *Chairman*: One of the main difficulties seems to be that you do not get a reflection in retail prices?—That is the whole point. It is the jam between the wholesaler and the retailer which makes the reflection unduly delayed and makes the gap unduly wide at the present time. It may collapse—it is purely self-sustained.

3856. *Mr. Brand*: There are some big profits being made?—Yes, somewhere.

3857. *Chairman*: I will not ask you for your remedy for that, as we will come to that later on. —That is a very critical part of the case.

3858. *Professor Gregory*: I am not going to discuss for the moment any question of general inflation, but I want to ask you this. This whole theory that the rise of prices in the long run corresponds to certain psychological necessities of the economic system always assumes that people are not aware of what is going on. But would you not say that one of the real difficulties of the attempted immediate adjustment of world prices to our own is that it would be met by conscious counteraction on the part of the holders of bank deposits and holders of fixed interest paying securities, and so on?—I have not thought about that, and I do not know. It does not strike me at the first blush that you need fear that very much.

3859. You would not fear what has happened elsewhere—you would not fear a flight from the franc, or a flight from the mark, or a flight from the pound?—No, because it is not local to one's own currency. I am speaking now of a general rise of gold values.

3860. You could have a general offer of currency in the shape of immediate purchase of goods. Everybody would try and get rid of their money before it fell in value everywhere?—Everywhere?

3861. Yes?—I do not quite follow the necessity for that.

3862. *Mr. McKenna*: If we get a general rise in prices through an exceptional increase in the quantity of gold, that would have the effect of universal inflation—a general rise in prices?—Yes.

3863. That is good for trade?—It makes a trade boom, provided it is not of such a character as to bring its own reaction. I do not regard a rise in price as inflation at all points. It is merely a corrective to deflation when it is below normal. It creates a prejudice to say that you are going to inflate if all you are going to do is to head back a deflation which is going on, and so restore something which ought never to have happened. That is not inflation.

3864. *Professor Gregory*: One has to make a distinction, which I thought you would agree on, between a slow increase in price level, which can be attributed with a certain show of reason to natural causes like the increase in gold supply, and a conscious policy of inflation devised to meet a price situation which might be countered by universal flight from the currency—do you agree?—I do not know whether I do agree.

3865. May I put it positively by saying that what always impresses me about the modern world is not only the search for appreciation, but also the readiness with which people become frightened as to the future of the currency system. That is the point? —Yes. From what I have said I do not want the Committee to think that I believe the ideal form of monetary stability at which we are aiming is necessarily a constant price level, or a rising price level. There may be certain circumstances of great efficiency of industry which would justify articles really costing less in gold if it is the price of human effort that you are valuing.

3866. *Chairman*: Do not let us use the word inflation for the moment, but what strikes one is this. We are becoming economically self-conscious, and it may be that it has been consciously devised. Hitherto we have been, shall I say, the sport of Fate, that is to say, these things have operated, and we have been merely the spectators of what has happened. We may now consciously have to adopt them and not merely allow ourselves to be the sport of Fate?—I agree. In psychological matters in economics the mere fact of analysing them and understanding them makes them disappear.

3867. That is why we appreciate so much from you the analysis of the position?—Thank you.

3868. I think there is time for one more of your topics to be outlined?—There are two additional factors relating to wages resiliency and the distribution of the product. First, there is the falling behind our chief competitors in connection with the rationalisation process, and, secondly, there are the heavier social costs which are upon us as compared with our competitors.

3869. As to the rationalisation matter which is so prominent nowadays, that is a word which has very varied meanings. You might give us your views upon it as you conceive it, and perhaps you will indicate within what range the process of rationalisation can be effective in enabling us to regain our export position which you wish to regain, I suppose, largely through rationalisation?—Yes, that is a most important area. But if you rationalise other industries which the export industries use, you also lower their costs.

3870. Is that a reaction?—Yes. The one objective is to get down the cost of production through more economic methods. There is a great deal of confusion about rationalisation, because it covers two or three distinct things, and they have rather different effects. For instance, you hear it said that rationalisation is a thing you ought to do, and that business ought to do it, anyway, in certain circumstances, whether you have gold price troubles or anything else. That is not quite true.

3871. That merely means you ought to be efficient? —The ground for one form of rationalisation, and the necessity for it, comes about only because of this lack of resiliency, the jam. These reasons for convenience I will call consolidation, organisation and substitution. I am not theorising, because I have been engaged in the actual process of rationalisation for the last ten years. In consolidation—this is in any case independent of currency troubles—you may have two factories making the same line of things, each half full. You save overheads and a lot of waste of human labour, by consolidating your manufactures into one, and letting off the other for some other purpose. You save capital.

3872. You have one factory working full time, instead of two factories working half time, or half efficiently?—No. They may be already both working full time with half the full number of workers; but you can then obviously save overheads; and there are various other advantages which you get in having straight runs of particular lines of commodity instead of chopping about. Again you may have the factories completely full, full with two products, and your process of consolidation may be to make each one run on its own product. Do you follow me?

3873. Yes.—That is also consolidation. That ought to happen in business without waiting for the pressure of money difficulties. The second thing is what I may call organisation, where by re-arrangement of the process you can get more product from 100 men, or you can get the same product by having 90 men instead of 100 men, and a better lay-out and better scheme of distribution of the product, or even by a better scheme of payment, or other items of industrial psychology, such as rest pauses and various other things—what I might call psychology problems. You ought to be doing those independent of the currency question. When you come to the third kind, what I call mechanisation or substitution, you get something which is definitely related to price level. For example—this is not an actual case, but it is sufficiently indicative—in 1925 let us suppose that I asked one of my Vice-Presidents to ask the operating people to look at a particular stretch of branch line, because it is very costly; and is not bringing in much money. I say: "Cannot you economise there"? He sees that the present costs of working are £5,000. He goes into it and finds that by automatic signalling and electrical devices you can get rid of two or three signal-boxes, and you can re-arrange the whole thing. The cost of doing that is, say, £5,000 a year. He just does not do it, for there is not enough in it—it just breaks even. That is put on one side as being an unprofitable production. Now I ask for it to be brought up again in 1930 and looked at. It is found that the costs we are incurring in running that line are still £5,000, but owing to the drop in prices when buying materials to do the new task, either by improvements in the industry that is supplying them, or by giving cheaper articles, the cost represented by the capital substitution, instead of being £5,000, is now £3,000. You see at once, although the conditions are the same, the price level question has made the question of mechanisation, which cancelled out before, now a feasible one in substitution, and we at once proceed to rationalisation. Rationalisation consists in analysing every product and seeing whether you are doing it in the best way, or whether there is any other combination of capital and labour which can bring about a better method. I think those of you who have seen any of the reports, will realise that in the Crewe workshops we reckon to do in hours jobs that five years ago we talked of in months. It took two-and-a-half months to put a heavy engine repair through; but now the men are talking jubilantly about 49 hours, and trying to make 48 hours of it. It has gone through a long process. That is partly a question of consolidation and bringing all the same type of engine along one belt. That is the first point. It had led to re-organisation by doing only the same kind of job at the one point, and having a different lay-out. But it is also a question of substitution, because the various capital expenses and devices to bring that about are now less costly than they were. So that Crewe or Derby are cases where all three elements of rationalisation are in operation.

3874. *Mr. Bevin*: How does that affect your previous point about the distribution of the product of industry, if that is going on everywhere?—The particular men who are working are getting higher wages than they were, but there are fewer of them.

3875. But there is this other point. You said one of our troubles at the moment was that the distribution in wages was too high in comparison with the total product. Now you tell us that this re-organisation has reduced the amount in total that is paid in wages in proportion to the total product. I cannot reconcile the two positions you are putting?—Well, in the first instance I was talking of the industrial product as a mass. Here I am talking of it at isolated points.

3876. Have you made any effort to ascertain the distribution of the product in the light you are now putting it, to see what is happening over industry generally, in spite of our assumed backwardness?—I think I can say where we are successfully rationalising in the third sense, the general effect is to increase the output per man and increase his wages, but, from technological reasons to make less employment in that particular industry. That has proceeded in Germany to a terrific extent in the last four years. It is the main factor of their unemployment—it is technological.

3877. It also reduces the amount of the product which the workman receives in proportion to the total product?—That is the statistical proportion of the total product?

3878. It would not grow?—I do not think so—I should say not, in view of the extra capital expenditure to be met. But other workers have had their share of that capital outlay.

3879. *Mr. Keynes*: Is not there a fourth type of rationalisation, which is pretty common in large, organised industries, namely, contraction—that is to say, an industry finding itself on too large a scale for its present markets, gets together in order that it may contract?—Yes. I am afraid I included that under my first head of consolidation, when I spoke of putting the output of two factories into one. There you put out a factory, because you will never have two half working.

3880. That would only be necessary in bad times. It is not a case where the larger unit as such is more efficient, but it is because, as you have got all these redundant plants, you have to find some way of producing less from them, pending the period when they are worn out, when again you may have smaller units?—I ought to have sub-divided my consolidation into those two aspects. They are distinct. In considering the economies which you can effect you see you have a lot of small things, and it often pays you to hold a lot of them idle, or to concentrate or to contract them.

3881. In other words, that is the process of cartelisation?—Why not quotas?

3882. Whichever you like.—In the case of Nobel's transition, in five years we reduced 100 factories to about 50, after a scientific costing of what they could do on absolutely uniform lines. But there was no cartelisation.

3883. I entirely agree; but with regard to an industry which is not a monopoly, the position is a little different—I was thinking of the cotton trade, where you have to get a certain output?—I agree. The Nobel difficulty was overcome because it made its monopoly to begin with, which enabled it to deal with the scrapping of plants, or parts of them, without meeting any quota difficulty. I think in some of our industries we have fallen behind our chief competitors in the rationalisation process. In the first instance, we are incapable of having such large units as, say, in the United States, even if we wanted them. Secondly, were we capable of having them as large as Germany, we have fallen behind them in producing them; and we have got this extraordinary fact, namely, that in highly capitalised industries, the best units have the most expensive costs when they are only half full. That is the pathos of it. You can only get the real benefit of a fine steel plant by operating it to the full. It may have a higher cost than a less efficient one, when it is only half full. So that the falling behind in the rationalisation process has put us at a very serious disadvantage. One of the so-called disadvantages of hard times is—Mr. Keynes will not like me to say so, I know, but it has its force—that you look for all kinds of substitutional methods and consolidation methods when you might otherwise be contented with things as they are; and you find things which you might otherwise never see or look after.

3884. *Mr. Brand*: Why have we fallen behind? Is it due to our poverty as compared with America or Germany?—It is due to two reasons. As compared with America—comparative poverty, yes. That is to say, with good times they can afford to be very lavish in experiment, and scrap machinery before it is anything like worn out. With us we try to make obsolescence coincide with wear and tear; but that they never bother about. Mind you, if they do anything, they try to reduce the wear and tear period to obsolescence by making cheaper machinery which will only last a certain time. We, with our tradition to make machinery which will last as long as it possibly can last, try to extend obsolescence to that full period. We say that so long as a machine is doing its job well, we refuse to recognise that it is obsolescent; and quite different industrial ideals have their different results in that respect.

3885. *Mr. Bevin*: There is a greater flexibility in the allowances for taxation in the United States in respect to obsolescent machinery, is there not?—There is not much in that point. It is a matter of psychology. You hear a lot of it from business men, but there is precious little in it.

3886. *Chairman*: The suggestion is that our Revenue Authorities allow very small amounts for depreciation. Is not that what you mean, Mr. Bevin? (*Mr. Bevin*): I do not think it is quite that. As I understand it, in the United States there is a greater flexibility for the age of the machine permitted, rather than taking our plan of a rigid 1 to 2 per cent. (*Chairman*): It is an encouragement to have obsolete plant, if you do not get it recognised by the Revenue?—There is a misconception on the part of our business men about the way they are being dealt with for obsolescence. I know he has a psychology of the kind which has been indicated, but it is an absolute mare's nest.

3887. *Mr. Bevin*: Does not the fixed percentage for depreciation which is adopted in this country fix the period in his mind and in everybody's mind? —It has the psychology of fixing a period, but he does not lose anything. He does not really suffer.

3888. That is my whole point. Supposing a man is buying a machine. Does it not have a big effect in getting him into the habit of mind of spreading depreciation over a certain term of years?—I agree absolutely it is a factor in the psychology of what he expects it to do.

3889. And in what he buys?—Yes.

3890. He does not allow for the effect of fashion and the rest of it? You probably came up against it in Bradford. There they are weaving with a particular type of machine, and there is a tremendous difficulty in changing it. In the United States, as I saw it, there was a greater flexibility as between the type of machines?—Yes.

3891. *Chairman*: They are more ruthless in cutting out obsolete plant?—Yes. Mr. Bevin makes what is an excellent point in the fact that it is officially recognised that a certain kind of machinery should last a certain amount of time, which creates a background in his mind; and he buys a machine which will last that time.

3892. *Mr. Bevin*: The machine-makers and every body have got it in their minds?—An American man looks upon obsolescence as a determined period, and tries to make wear and tear coincide with it; while we fix our wear and tear period and try to make obsolescence extend to that. I believe rapid substitution in America is due very largely to prosperity; but in Germany it is due to two things. It arose in Germany after the disasters of the war as the effect of Reparation loans and requirements and also the nation-wide machinery for inducing economic rejuvenation. Here you find members of an industry getting more into the doldrums than ever before, and they begin to have meetings to talk about it. When they do, there are the local jealousies, there are the clear-cut differences between each, and there is every reason why they should not come together; and it needs something like an earthquake to get them to come together. You had not this state of things in Germany for you have a centralised institution, the whole purpose of which is to search industry to its very last recess to see at every point if it is efficient. That has its local branches. No industry can escape, not merely a questioning, but very direct questioning from this kind of Committee, as to what it is doing about the new efficiency methods.

3893. *Chairman*: What is that institution?—It is a National Economic Institution, which is extended over the whole of Germany except agriculture. It has, however, carried the process of mechanisation much too far.

3894. Who are these investigators in Germany? Are they a Government body?—It has, I believe, the Government represented on it; but it has also evolved from a kind of patriotism or *esprit de corps* on the part of the elected representatives of the people.

3895. *Mr. Bevin*: There is a similar thing in France?—It is much more pronounced in Germany. It has made people, who feel sensitive about not having done anything, do things, perhaps really before they ought to have done them; or it has made them do them too thoroughly. They have carried the process to a ridiculous extent. Such methods have been employed in America where they ought not to have been employed in Germany. First of all, the plant in America is larger and has a wider market than in Germany; and in the second place mechanisation in America can be carried to a much greater extent than it can in Germany, because wages are so high in America that it pays to put in machinery to do the work of labour, where it does not pay in similar conditions becauses the wages are lower in Germany; so that they have mechanised too fast and too far. They have taken out in places brand new plant, that was put in up-to-date only four or five years ago. We would not wish to copy their process so far; but in the meantime they have plants and equipment which put us to a great disadvantage.

3896. You will agree in the United States the big stunt after the war was as to the necessity of restricting immigration?—I think that was an important factor.

3897. *Chairman*: We have had two hours of intensive discussion. Perhaps you would not mind continuing to-morrow?—If you wish me to.

3898. Most certainly. We shall be discussing the international position to-morrow afternoon; or are there other topics?—I have not covered the first two pages of the questionnaire.

3899. I think there are sundry other questions to be debated.—This is the first examination paper I have had where I have not been told that "only six questions need be attempted." This one rather reminds me of the Ten Commandments.

(*Adjourned till to-morrow, Friday, 4th April,* 1930, *at* 4.30 *p.m.*)

TWENTY-FIRST DAY.

Friday, 4th April, 1930.

Present:

The Rt. Hon. LORD MACMILLAN, *Chairman.*

Sir THOMAS ALLEN.
Mr. ERNEST BEVIN.
The Rt. Hon. LORD BRADBURY, G.C.B.
The Hon. R. H. BRAND, C.M.G.
Professor T. E. GREGORY, D.Sc.
Mr. J. M. KEYNES, C.B.
Mr. LENNOX B. LEE.
Mr. CECIL LUBBOCK.
The Rt. Hon. REGINALD McKENNA.
Mr. J. T. WALTON NEWBOLD.
Sir WALTER RAINE.
Mr. J. FRATER TAYLOR.
Mr. A. A. G. TULLOCH.

Sir FREDERICK LEITH-ROSS, K.C.M.G., C.B.
Mr. G. ISMAY, *Secretary.*

Sir Josiah C. Stamp, G.B.E., recalled and further examined.

3900. *Chairman*: Sir Josiah, this afternoon I understand you wish to pass to the topic of what we may call remedial measures. You described yesterday the position as you envisage it. You gave us a diagnosis of some of the difficulties which confront the working of the gold standard under present conditions, and certain embarrassments which affect the monetary system just now, and I understand to-day you are going to discuss with us some of those remedial measures which have occurred to you. Taking first the widest of all, which happens to be one of which we have already heard something round this table, the question of international co-operation, what have you to say about that?—I think I ought to start with the remedial measures, coming inwards, as it were, otherwise I shall never get to them, if I deal merely with the diagnosis of the present position. I can pick up the diagnosis as I deal with the remedies. It is not that I have anything with which to strike the imagination of the Committee in the remedial measures, I can only give my attitude of mind towards remedies, and the kind of considerations that I think are most important to be weighed. I have no cut and dried solution, particularly a pleasant one, for the situation; I am only trying to find my way among the various solutions.

3901. You can, of course, indicate to us the attractions and disadvantages of particular remedies, and give us some material that will help us?—If it is any help to throw my doubts and fears into the Committee I can do that.

3902. And hopes, may we say?—Yes. I will start with what is the widest and, in my opinion, the most fundamental; that is, the question of international co-operation in the use of gold and in the credit methods based on it. Looking over the past ten years we have seen quite a reasonable amount of co-operation internationally on special features of finance, special points of distress relating to particular countries' finances, reparations, and the like, and we have seen the glimmering of international co-operation in the use of gold, but, as I see it, in the form it has taken in the past, very unsatisfactory, very inconclusive, and certainly not leading within any reasonable period of time to a good working machine that would do the job that so wants to be done. The methods so far have been almost entirely personal visits by the Governors of the Central Banks to each other. I cannot see that you can base any very satisfactory permanent co-operation in a problem that is extremely urgent and difficult, upon that kind of contact alone. It is very valuable, of course, because people can speak their mind to each other like that more easily, but by itself alone it is not sufficient, because if you get a visit from the Governor of one Central Bank to another a suspicion is sometimes communicated rightly or wrongly to the others; they wonder what is happening—what is on foot. Where there is any kind of appearance of international "trading" in monetary affairs then you undoubtedly get established certain lines of communication much more easily than others; the predilections of particular bank managers, at any rate, are much more likely to lead to visits between them than between those who think differently, or who are not on such complete terms of co-operation. These visits from distances make it impossible to get co-ordinated thought and development such as we want at the present time. Another thing: if this contact is made *ad hoc* in the sight of the world you at once get public and Press scrutiny influencing those who are taking part; people want to pull up the plant by the roots to see how it is growing. What is wanted is something not so spasmodic, and something that is more educative. That is why the Bank for International Settlements seems to me the only possible vehicle of co-ordination of this kind. I am looking to it for the growth of opinion amongst the Central Banks. At present the situation is like the cycling club, the pace of it seems to be the pace of the slowest member, and so the pace of co-operation on that method tends to be the pace of the most backward in thought. Here you have possible an important periodical meeting, quite frequently, for other purposes well known and recognised, so that no special public or Press attention is directed to the meeting of the Central Bankers. It leaves them perfectly free to deliberate without interference. The process of education may go on unconsciously and therefore all the more rapidly. I have been in contact myself personally with representatives of some six or seven Central Banks, and I have formed some idea of their psychology, particularly the backward ones. I know how very slow they are to respond to direct contact, but how very quickly, relatively, their minds will change when they are doing it under the changed conditions, and not under pressure. This process of unconscious education of the representatives of the Central Banks, discussing topics which they did not meet specially to discuss but which they must consider, seems to me to be the best possible approach we have got so far to co-operation upon gold, and it will give, it seems to me, a continuity to their thought. The greatest necessity of all is that all nations shall equally recognise the common problem. They do not at present. I should say England and Germany are the most alive to those common problems. The United States have varied from time to time in their appreciation of the outside difficulty—at one time acutely aware of their international responsibility, at another conscious only of their internal questions. There are some aspects of which they have been oblivious; it is never part of their general mental furniture as a financial people, apart from their domestic problems. France has quite a different conception of the problem from what we have. People say the Bank for International Settlements has not been set up for this purpose. It has not, ostensibly, but to me it is the most important function it can have, a by-product more important than any of the other functions that have been actually allotted to it. At the moment it is being given very humble tasks, but the Bank of England did not become the Bankers' Bank until quite a late period in its history, and I do not see any reason why we should not look to the Bank for International Settlements to deal with what is undoubtedly becoming a much more closely knitted international problem, and perhaps deal with all kinds of international finance problems. It is true that different countries are looking to the Bank for different things. Different countries have different ideals for it, different tasks. Germany looks to it to expand world trade for legitimate purposes falling outside the scope of existing institutions. France looks to it for other purposes such as mobilisation of bonds. So far as I am concerned I look to it to deal with what I regard as a very desperate situation. This is by far the greatest problem of all and we shall all be dragged down unless we take action, because we have not the power to get together and stop it when it comes.

3903. *Mr. Keynes*: The Federal Reserve Board will not be associated with the Bank for International Settlements, will it?—Not immediately. You, of course, know the political difficulties of that, but I hope the next best thing has been done and that the contacts that have been made with the most influential people in America will do in place of it. It is not as good an expedient, but it is better than nothing. My only reason for enlarging upon it thus is to emphasise that all that we may do internally may be a mere bubble on the surface of the rapids as this thing takes us down over with it. It is the biggest problem of all, and therefore whatever feelings we may have in regard to it—and no doubt it has its drawbacks and dangers—you would do well to encourage it for the reasons I have given.

All the remedies that I am going to refer to have grave drawbacks, and I will tell you in a minute what my attitude of mind is towards remedies. This particular remedy may have grave dangers and drawbacks. It arouses fears in the minds of people about financial supremacy passing from particular areas or particular classes of people to other people. They are all grave, and nobody would want to face those dangers but for a situation of difficulty—world gravity. But I would swallow the whole lot, in this particular instance, and take my chance on them. No one who puts them in the forefront can have any sense of proportion in realising the overwhelming importance of this aspect. I know the Central Banks when they are all brought together will have a great sense of responsibility, and I trust to them not to sacrifice unduly such particular interests unless it is quite necessary. I think the Young Plan in its scheme for the Bank does err on the side of timidity in fending against these troubles and difficulties, and I hope this institution will grow in confidence and that it will assume some day some of the functions that have been so jealously guarded against. It may be necessary, in due course, if you cannot get sufficient internal action to meet the situation, to have international action, international credit, if you like, to offset the natural process of deflation. That is in the future. It is not an awful thing, if it is done under proper control. I wanted to sketch this particular case because I wanted the Committee to feel that whatever the drawbacks and dangers of this particular remedial measure might be, they are nothing compared with the general gravity of the problem. It is vital. I think it is much the most important problem of the situation. It is far more important than the relations of capital and labour, far more important than disarmament or international debts, and if this problem is not solved down goes The Hague settlement, the Young Plan, in the course of a few years, bringing with it every kind of political recrimination and international difficulty. Already we find that the average Young annuity is really as heavy in its weight on Germany as the normal Dawes annuity was intended to be, owing to the reduction of the price level in the meantime. It is impossible to lay down any rule about how Germany or the allied debtors shall act in a financial debacle, and you get a complete revival of all those international recriminations that do so much harm. So even from the point of view of saving the international position of reparations and debts, it seems to me this institution ought to be supported.

3904. *Chairman*: Sir Charles Addis is a member of it, is he not?—He is one of the British Directors.

3905. He read a paper on the subject yesterday to the Bankers' Institute which will be published in the Bankers' Magazine. He was good enough to send me advance copies of it; it is descriptive of the nature of the institution.—I do not pretend to know what the banks want it really to do at the finish; but I know this, that nothing can be done unless you have the thinking, the brains organised to do it; if you provide the brains and the organisation you can hope that time will bring the right kind of solution.

3906. *Mr. Keynes*: There are two sorts of things the new Bank might do. It might form a place of meeting between Central Banks at which they would persuade one another to act more in the international interest and less in the local interest. If they can be persuaded that what is right internationally is the same thing as what is right locally, one could hope for success from that, but if it means that we are to suggest to the Central Banks of other countries that they should do something in the international interest which, in their own judgment, is not to the economic advantage of their own country, I should have thought the prospect of success was very slight. If we were to ask the Federal Reserve Board not to allow a dangerous movement to develop on Wall Street because dear money would be embarrassing to international trade, and therefore hit industry and employment, the chance of success would be very small. If we were to try and persuade the Bank of France that with gold supplies at their present level there is not enough to go round, and that the Bank of France has got enough gold reserve now, and should reduce it by £50,000,000 or £100,000,000, I should have thought the chance of success was very remote.

But if the new Bank could get to the stage of creating some form of international credit, having some kind of substitute or adjunct to gold in the form of international bank money, then it seems to me the situation is quite different, because if there is a much greater abundance of fundamental reserve money, then individual countries can pursue a local policy if they think it is in their own interest, without its having the same upsetting effect on the international situation. Would it not be much more hopeful to solve the divergence between national and international interests by making the basis of credit so abundant that it did not embarrass us if it suited France to have a very large gold reserve, and it did not hurt us if America removed from us a large quantity of gold, because we could let gold flow to America and let France have her gold reserve without upsetting our own domestic policy?—I would not expect any country in its present frame of mind to suffer large disabilities internally for small advantages internationally, but I do see signs that countries are prepared to suffer small internal inconveniences for the sake of common agreement on international problems. There was a striking example of that last year during the Committees sitting in Paris. The fact that if the international situation is better, it has its advantages for a particular country will, I think, gradually, in the process of education, dawn upon that country. I would say that there is much more chance by this kind of contact with countries backward and timid in relation to reserve requirements, and their conservative legislators being brought to the point of realising it and being brought up to the standard of people who have been successfully bolder in other countries.

3907. Have not the most successful countries the largest reserves at present, with the possible exception of ourselves?—I am not speaking of the size of the reserves so much as the success with which they manage on small reserves.

3908. Which are the countries which have been successful on small reserves?—I think if, as things go on, we can find two countries side by side and one of them does not require a high percentage and the other does, and they are equally successful industrially, the cost of carrying large quantities of gold unnecessarily could be brought home, and you might get a closer equation between their methods. If it is to work the other way, and countries are to say, "We must become rich enough to hold large quantities of idle gold," then it would be impossible. But my approach to the Bank originally, the very first draft that I drew of it for myself went very much further than any suggestion that has emerged. It meant the actual making of credit by an international bank, to make in your world market means by which if those conservative people were to tuck away gold you could meet the situation, to have a process of anti-deflation by collective wisdom, to offset individual currency idiosyncrasies and vices. That was much too strong meat for my colleagues; that draft has not seen the light of day; but that may have ultimately to be the remedy.

3909. Is not that the only real remedy?—Oh! no, it is not the only one. I think a process of mutual education may level out the gold supplies and make them go very much further in themselves. That alone would be a great advance. I do not see why the basis should not be made better, and the superstructure made better also, by this system, and where there are defects by reason of individual idiosyncrasies, the central authorities could remedy them in the world market.

3910. *Mr. Brand*: The creation of the International Bank raises a very difficult constitutional question. Here you would have an institution which would have immense power over the world, and yet be responsible to no authority?—If you go back to the earlier history of banking, there is nothing worse in this idea than the kind of considerations which faced people when banking first started.

3911. *Mr. Keynes*: Would you be in favour of this country setting a good example by ultimately holding a large part of our gold reserve abroad?—For the value of the gesture, yes. Not large parts, but as an example.

3912. *Mr. Brand*: In dollars or other currencies?—In dollars and others.

3913. *Professor Gregory*: The problem is to get the Central Banks to recognise that those holdings abroad should be in gold?—The problem is to get the Central Banks to realise that gold and its use is the controlling factor in the world's prosperity.

3914. *Mr. McKenna*: Why are you hopeful that the representatives of Central Banks gathered together in a room will act in a way more wise than they do now in their own departments?—We are at bedrock at the moment; we cannot go lower in the matter of international grasp—collective grasp—of the situation. The consultation may not be all we hope. But at least it would be better than now.

3915. I think you will agree with me that no Central Bank at the present time acts in the way which you have indicated?—Well, it cannot act internationally that way, because it has not got enough cohesion and enough backing.

3916. But even locally, it does not make as much use as it might of its own existing organisation?—That is taking me to quite another problem.

3917. *Mr. McKenna*: I do not wish to press the point, only I am a little sceptical as to whether the representatives of Central Banks gathered together in a room will act very differently from the representatives of Central Banks in their own departments. (*Professor Gregory*): It is a well known psychological fact, that when people are gathered together they will behave better than when they are on their own. (*Mr. McKenna*): They often behave worse; they adopt a standard of less intelligence?—I think at present the situation is ruled by the speed of the slowest member of the club. I think when you get them together the slowest members will get up more speed, and there will be pacemaking.

3918. *Mr. Keynes*: Would you not say that in the last few years gold exchange methods have been rather going out of fashion?—Yes, gold exchange methods have been going out of fashion, unfortunately. We know the standing and the propaganda of the Stable Money Association. Well, the Governor of the Bank of France has just become a Vice-President of it, which means that he must read all its literature, and he gets the literature of other people with more forward ideas; and if that be done in an association which carries on its activities through the post, how much more could it be done by some body that meets in a room? The significance of that will not be lost upon people who know the two things.

3919. *Chairman*: No one has more experience of meeting people in rooms, Sir Josiah; you know the psychology of conventions. (*Mr. Lubbock*): Mr. McKenna suggests that no Central Banks' representatives gathered together in a room will agree on a common policy. I suppose it is difficult for one Central Bank to act without others, it is difficult for one to expand its credit unless they all do?—Yes, and difficult to take collective views of the requirements of the world.

3920. *Mr. Lubbock*: It may be deterred from doing what it would like to do for its own country in view of the action of other people abroad?—One cannot expect a higher degree of co-ordination and cohesive thinking amongst international people than you get, say amongst the heads of the Big Five. One presumes that they act together, but they do not necessarily think alike, and I am not sure whether the progress is that of the naturally slowest or the fastest member.

3921. *Chairman*: I think we might pass to your next topic, in which you deal with the question of investment abroad?—Yes. I am leading up to the question now that has been passing through my mind for some time, the basic question—can a densely populated country whose eligible openings are on a 3 to 4 per cent. level expect to remain in equilibrium with a world in which a large part is on a 6 per cent. basis, if all its savings are in individual hands which are seeking the best market anywhere and the people cannot be distributed with the capital. You have a certain antithesis that you have to face, that the capital is there, but the labour that would have to go with it is not. The question is first, whether you can get a densely populated country to remain in that position, and secondly, have a standard of life which is very high on a highly complicated open system, but which is high only if all the functions are working smoothly, so that it is actually very precarious. Might it not be better to have a lower average standard of life which is less precarious and can stand up to all the storms from without? Might it not be better to aim at having a more closed system, if it means we can only keep our high standard at the risk of losing stability. That is how I look at ordinary economic equilibrium. It has this tremendous resilience; you pull it one way and it has to come back again. In that sense it is like a rocking-chair; it will rock backwards and forwards; the more you rock it it comes back with more force, until you get the centre of gravity vertically outside the base line, and then over it goes. It is this kind of danger that is in front of us; the pull is so much greater than we have experienced before. There are several ways of tackling it. One is to increase the size of the rockers, another is to lower the centre of gravity. If you look at it in another way, it is like something that is elastic and will always spring back until you get beyond a certain point where you get a molecular change, and then it will break away and not spring back. Thinking along those lines one wonders whether we can avoid the risk of falling over by contracting our operation, even if it does not give us the high standard that the other system does when it is in successful working order. The first point is the risk of savings being forced abroad under these conditions of 3 or 4 per cent. interest when a 5 or 6 per cent. market is available. The temptation is now very much greater, is seems to me, than it was in Victorian days; even though the objective or actual conditions of interest have not changed. You have savings now proceeding necessarily by a rather different method. The " backbone " of savings in the Victorian days were the private owners of moderate sized businesses; they lived lean and hard and all that they did not consume they were ready to turn back into their businesses. They never studied their balance sheets and said, " I can make 3 or 4 per cent. by putting this into my own business and 5 or 6 per cent. by putting it into foreign investment." There was none of that deliberate choice of foreign markets; they did actually, from the best personal motives, and from ignorance of the foreign situation, put large amounts of capital into their own businesses, the marginal return of which was never compared constantly with the marginal return from abroad. What happens to these funds to-day? They very largely go into taxation; they get into the financial machine through that process, the sinking fund and other processes. When they once get into the financial machine there is a very conscious consideration of home opportunities and foreign opportunities. Now the Trusts and the big concerns put the lists side by side with a view to using those funds that the man in Victorian days unconsciously put back in his business. Therefore, even if we get no change in the outward and inward level of interest we have a much slicker method of investment in the best market. I do not suggest you should revert to the Victorian days, and I do not suggest the money ought to go back into a small personal business, but it does lead to that view, that you might just as well give up the old Victorian idea and seek a new one. We have a situation that our export competitive power is not as good as it was—we discussed that yesterday—and so this endeavour to invest abroad, and this natural tendency to put it in the best market, strains the gold situation in this country, keeps up the rate for money, and therefore the number of economic opportunities in this country that have any chance of living at the rate available is much more limited. Therefore it tends to waste the savings; they neither get abroad, owing to the gold standard precautions that have to be taken and the high price of exports, nor do they get properly employed here owing to the rate—they get wasted. To remedy that state of affairs we can either make ourselves a more close system, we can try to stop it on the investment side by discouraging foreign investment, or by artificially encouraging home investment, or both. The devices have all got their disadvantages, but they are worth looking at. It is not because I am not patriotic, but I have no very great hope of appeals to the public to invest money at 3 or 4 per cent. at home rather than at 6 per cent. abroad, other things being equal. I do not think that carries you very far, and I would not rely upon it very much in the circumstances, nor have I very much hope of embargoes on foreign lending in London. We have had some experience of that, and we know that as much seeps out through the cracks and unseen holes as is stopped by the main flood gates. It is very difficult to have an embargo that does not rather put a penalty on the people who are either in the public eye or are particularly honest or patriotic, and just gives the others a chance to make extra money. I do not think the experience we have had of embargoes, either tacitly expressed or implied by the financial authorities, is such as to give much hope for this particular type of remedy. If we are setting out to force savings to remain at home I do not put much stress on an embargo. I was on the Committee of Civil Research that had to consider the taking off of the last embargo on foreign investment. Everybody felt, I think, that there were more abuses arising from it than real utility. There are quite a number of ways in which you can make foreign investment less profitable and less effective. You may do it by fiscal measures, by having differential rates on the registration of foreign transfers and on foreign loans in this country. You would also have to stop a very beneficent tendency, that is the recent tendency to proper ameliorative measures by international conventions on the problem of double income tax. It is extremely advantageous to the movement of capital between countries, for double taxation acts as a tariff, keeping money within their borders. The whole idea originally of relieving from double income tax was based upon keeping the taxation at the source of income where it arose and giving up the taxation upon the recipient. The new idea, started effectively by the Committee of the League of Nations in Geneva, of which I was the British representative, and which has gone forward ever since, is that that method is the wrong way round, that the proper way is to tax where the income is received and give up the tax where it arises. Of course, when Poland, for instance, places a public loan in the London market they have to advertise that it will be free from Polish taxation, but it is not free from British taxation. That does not happen when a British individual puts money into a Polish firm. This kind of convention to dispose of that capital tariff wall is being vigorously pursued now, and the arrangements are all proceeding on the line that residence is the best basis of taxation subject to all kinds of individual exceptions and peculiarities. It is obviously to the advantage of countries that are creditor on balance and to the disadvantage of countries that are debtor on balance, because the former give up less. By reversing it you would certainly get a very material check to foreign investment as far as we are concerned. Even if present reliefs which are granted in the Dominions were stopped, and you had a double tax, you would get a very important fiscal engine to prevent capital moving from this country unless the owner moved with it.

Then, following the methods that were adopted during the War, you could have a differential income tax upon the yield from foreign investment. There are plenty of revenue difficulties, but it is not at all impossible to frame a method of that kind for the discouragement of foreign investments. You can increase the tax on such investments as you did during the War, and you could also have a differential death duty on investments abroad. There are plenty of fiscal ways that could be pursued if it were advisable to make investment abroad relatively disadvantageous.

3922. *Professor Gregory*: You have stated the remedies; what is your reaction towards them?—I am not at all sure that the present position of foreign investment in relation to export trade is one of permanent disability; I have not made up my mind whether it is serious enough, though I think it is serious. Some of these are things that, unlike tariffs, you could put on for a time and remove them quite easily. If I could make up my mind that we are in a false position with regard to our export trade permanently, and to our savings, I would be willing to adopt some of these measures.

3923. *Chairman*: You would not be adverse to investment abroad *per se*?—No.

3924. It is a question of over-investment abroad?—The temptation to invest abroad unduly compared with at home.

3925. These fiscal and other deterrents which you have suggested would strike equally at investment abroad that was desirable as well as investment abroad that was undesirable?—You cannot wholly discriminate. It is very difficult.

3926. Therefore, you might cause very serious disturbance by deterring people from making investment abroad which they ought to make and which it is necessary for them to make in order to maintain our position?—I am coming to that problem, as to whether any such measures of this kind have not the disadvantage of lessening the export trade and consequently depriving the City of London of a large part of its natural business; whether with those two important elements attached to foreign investment, the game is worth the candle.

3927. And you would diminish the national income to a certain extent, because the product of this investment at home is in the region of three to four per cent., whereas on the money coming in from abroad it is six per cent.?—I was making the basic assumption that probably a closed system would give you a lower standard of life but a more stable one: because what is the good of having a higher standard of life if you are everlastingly falling short of it?

3928. When you talk of a lower standard of life, you get into the political region?—I would not put it that way.

3929. *Professor Gregory*: Have you formed any estimate as to how long these great differences, which I agree with you are larger than they were before the War, are likely to last? Every increase in the volume of capital export to foreign countries is likely to make rates in those countries fall and our rate rise?—I think our rates are artificially low and if you can get a new equilibrium I think our business rates would be more attractive than they have been. You would break up the present "jam." I do not regard the present price level as being a permanent one.

3930. *Mr. Brand*: The corollary of your idea would be to make investment more profitable at home. It would be no use stopping foreign investment unless you made home investment more profitable?—By the fact that you stopped foreign investment for a time and concentrated on home investment you might raise the percentage yield of available opportunities to four or five. You might quicken the whole tempo of the British economic machine by taking those measures.

3931. Do you say that if I do not invest abroad because I am stopped by these fiscal measures, my money must go into investment here?—No; what I say is that, supposing you do not, you may get such a quickening of the British tempo that what you thought in your despair was the highest level of available opportunities, three or four per cent., might be much more. I am rather hoping it may be the case.

3932. *Mr. Keynes*: With reference to the Chairman's questions just now, I gather it would not be an unnatural deduction from what you say that you would not reduce foreign investment; the object would be to provide an alternative method to prevent over-investment?—Yes, I want to maintain foreign investment where it is now.

3933. The object would be not to reduce the volume of foreign investment but to reduce the pressure of money trying to get abroad and failing to do so?—I should carefully grade the remedies so that they would not reduce foreign investment below the present level, but prevent a large quantity trying vainly to get abroad.

3934. Would not the result of the fiscal measures you propose be that if people found foreign investment less attractive they would be prepared to accept for home investment a lower rate of interest; and if it did not have that result what you are suggesting would be open to the objection that the Chairman has mentioned?—Personally, if you can stop the general international run down of prices I do not think the situation is sufficiently desperate openly to advocate reducing much below the present figure the quantity of investment abroad; that is my own feeling; but if the tendency is that it is going to try to find its way abroad and it becomes more and more difficult, then I think it should stop. When the exports are so highly priced that they cannot be the expression economically of the foreign lending, either we export gold, or match the lending with borrowing on shorter and hidden terms. When lending increases that kind of danger to the national equilibrium I would stop it at that point and try and focus on the home savings of the home market.

3935. *Mr. Brand*: Is not the trouble in foreign investment caused by the enormous jerk? My experience in the City is that the issuing houses wait until there is a favourable opportunity and then foreign issues are rushed on the market and mop up all the available money?—I think that such jerkiness is a dangerous thing and its interaction on the export trade is very serious.

3936. *Professor Gregory*: Is not that very jam due to technical interference with the market—unwritten embargoes and understandings? (*Mr. Brand*): No; the jerkiness I refer to is due to the fact that there is a much greater demand for capital abroad than the London market can offer?—I think jerkiness in the last few years has been a general attribute of the whole economic machine. Tremendous things have happened influencing investment: Reparations settlements, Debt settlements, and countries getting on to a new monetary basis. You could not expect the machine to run smoothly, and that recent jerkiness in the London market may be the product of that. I should hope it is.

3937. *Mr. Keynes*: If you had a safer basis would not that make it much worse? Supposing the British investor felt no particular risk about investing in, say, Australia or India, he would be still more willing to meet the enormous potential demand in those countries at somewhere round 5 to 6 per cent. and it might well be that three-fourths of our savings would try to get away in those directions?—Because the borrowing abroad was a smooth, constant offer, do you mean?

3938. No; I mean that if the world were in more stable condition the risks attendant on foreign investment would be deemed to be less great. At present our protection is that many of our investors feel hesitation about certain parts of the world. They feel hesitation about Germany, they feel uncertain how things are going to work there; they feel uncertain about South America?—They are two separate points. Dealing with the question of jerkiness, I think with a certain kind of public psychology you get over-investment; that boom psychology that entices curates and vicars and I do not know whom to invest their funds in Bolivian and other loans of the same kind. I agree that a more stable economic world as a whole is going to be a greater danger to us in the long run and lead to a more difficult situation from the point of view of the advantages of foreign investment.

3939. *Professor Gregory*: It will be subject to the effect, that, if you get a more stable world, you will have more to invest? (*Mr. Keynes*): Why? (*Professor Gregory*): Because the more stable world will tend to produce more?—The loading for risk is less, surely.

3940. *Chairman*: What exactly do you mean by, "the danger of foreign investment?" What is the danger of foreign investment?—The danger of foreign investment is, that you are trying to invest largely abroad. You have, on a non-resilient export system, enterprises that are not really competitive abroad. If a loan is floated in London and we have no exports which are cheap enough to convey that loan abroad, gold has to flow abroad or we have to become debtors to some market where the borrower buys his goods.

3941. Then the quantity of investment abroad must be a function of our export trade?—They are closely related—sometimes one is cause and the other effect, sometimes that is reversed, sometimes both are related effects.

3942. *Mr. McKenna*: You include gold in the export trade?—Yes, on that point. But the danger is that by putting the rate up you have savings that are "spilled" by deflation and you make it difficult to develop things at home. If gold does not go abroad you exchange the long period borrowing in London for short term borrowing abroad.

3943. *Chairman*: What is the meaning of that metaphor? What do you mean by savings being spilled?—May I come to that in a moment?

3944. *Professor Gregory*: I think you began with a sort of historical background. You have had very great experience of these matters; do you not think that the tendency of enterprise to come into the hands of joint stock companies is a very active factor against the danger which we have foreseen? A large proportion of the investment of business savings is now done by big joint stock companies?—Yes.

3945. Do they invest their reserves in foreign bonds?—Perhaps not directly, but indirectly, inasmuch as they make investment in foreign or Trust Companies, they get into that field where there is a wide selection.

3946. They do not suffer by extending their field, as they did before? I merely want to get at the facts?—Any large business concern with a Reserve Fund has got an Investments Branch which is looking at the spread of investment and looking at its lists all over the world. That corresponding amount of investment of savings abroad when in the hands of private individuals was never done before.

3947. I take it your view is that the tendency to replace private enterprise by joint stock corporations is an additional danger?—No, I would not put it that way. I would say that the high additional taxation transfers savings to another field of investment. Instead of the business from which it comes having the first call upon savings, it has the last. The Super-tax, etc., takes it into sinking fund repayments, and Government uses, and thence into the money machine where the foreign claims are vigorous and well understood. This has the effect of throwing a high proportion of the savings of the Victorian era into a wider field of selection.

3948. *Mr. Brand*: And high taxation comes in there. In order to avoid taxes some people may make their investments abroad?—It is not a big factor. I am thinking of where the money is made in a considerable private business. Previously it doubled the private business in the course of ten years.

3949. *Lord Bradbury*: Does it work like this in regard to big companies? One would naturally expect that a large company out of its profits would extend its business—new plant and so on—particularly if it were a success, but then it is subject to very heavy taxation and that part of its profit which in the absence of taxation might go into the business goes to the holders of War Loans who are much freer in regard to investment than the company would be?—Yes; it is the second and third stage. The first stage was the business that had the whole of the money and never brought it up against opportunities for slightly better investment abroad. Now, you have the fact that it has passed to the larger company by large public debenture and preference issues; some of that passes into the monetary machine, and becomes selective; in looking over what they have, they themselves being a large concern are more selective, they deliberately look at what they can get by spreading investment abroad.

3950. If you had the original small entrepreneur, with a system of taxation such as we have at present, part of his profits would have been drained away to the rentier, who would have had no interest in putting them into the entrepreneur's business?—That is one of the difficulties. You cannot expect these private businesses to be financed as they were by people who knew them once the money has left them by high taxation and gets into the hands of rentiers who do not know them, and if it is bid for by home enterprise it goes into the very large concerns. No rentier getting his War Loan return and looking round for further investment is going to put the money into the business of John Jones or Tom Smith whose securities are not marketable; he will put them into the securities of some large combine. You have altered the whole direction of savings by that very fact.

3951. *Mr. Lubbock*: You said you would like to keep foreign investment where it is now, but you would like to check further effort to get money out. I suppose any embargo would have to cover the whole field of foreign investment?—That is why you cannot make your remedy very drastic; you can only carry it to the point of being a discouragement.

3952. You might discourage foreign investment too much and we might have large imports of gold instead of investing money abroad?—You might get it so far and no farther. I think it is better with money which has been trying to get abroad and has not got there because of the difficulty of our export situation, to encourage it into investment at home instead of leaving it struggling against deflation. (*Mr. Lubbock*): I cannot quite follow that any restriction you chose to put on would just hit foreign investment at the right point.

3953. *Mr. Keynes*: Have you considered the advisability of treating anything in the shape of foreign bonds and debentures more severely than ordinary shares in companies abroad? Ordinary shares represent enterprise. Our foreign investments are one of the things on which our national burdens or prosperity are founded, but our national prosperity has never been founded on lending on foreign Government bonds?—I quite agree. I was coming to the different classes of investments. I was going to deal with it later, but I will do so now. I can see no advantage, in our present difficult circumstances, in lending to some German municipality at a fixed rate of interest, simply because it is ½ per cent. higher than you would get if you invested in a British municipality.

3954. But if it is 5 per cent. higher?—If it is 5 per cent. higher, then you may have more difficulty in making up your mind than on the smaller margin; but if you are putting it in the ordinary shares of trades which have a chance of developing, and where you have bringing you back something like a real bonanza, there may be something to be said for it.

3955. *Professor Gregory*: That is a very important point. Mr. Keynes will agree that in the modern world Governments which borrow on bonds use the proceeds largely for productive purposes?—They may purport to do so.

3956. *Mr. Keynes*: That is not my point. My point is whether we should become owners of a valuable equity. (*Professor Gregory*): I follow that; but merely because the investment is in a bond, it does not mean that it represents an unproductive purpose. (*Mr. Brand*): This process is going on all over the world. I know of cases abroad where big institutions buy up industrial investments in their country; we get some advantage from this foreign capital?—We get an offset, and I think one wants to encourage it. Whether it should be in equities, or in first prior securities, is another matter. I do not think we can look with equanimity at all the equities passing into foreign hands. However, shall I go on?

3957. *Chairman*: Yes.—In pursuit of the same object, we may look at foreign trade as being made such a proportion of the total quite consciously by tariffs and similar devices.

3958. *Mr. Brand*: Would this taxation of foreign issues apply to British Colonies? Would you treat Australia as a foreign country?—Yes, for this purpose. I do not see that you could do otherwise, if you are really trying to get at the root of the matter.

3959. *Mr. McKenna*: Might we call them all overseas?—All overseas. I am passing from tariffs for the moment, and will deal with a different class of enticement to home investment. The trouble with home investment is, it is an application, by admission, to invest at a lower level of return than is required to make the capital forthcoming. Why not let the Government take the burden of the low return, and borrow the money at the best available rate, the Government's rate? Supposing the Government were to put a loan out at, we will say, 5 per cent., and get money from the public at 5 per cent., and lend it to these economic opportunities at 4 per cent. and 3½ per cent. and 3 per cent., there is the problem. The State would thereby make a loss. That loss could fall on two supports—either upon other elements in the budget that would be saved, such as the dole for unemployment, and so on; or on general taxation. I am very doubtful whether you could justify any material burden on general taxation in order to subsidise the difference between the Government loan and trade facilities; but I think there is a very much bigger field of saving to supply that gap between the Government rate of borrowing and the Government rate of lending to be found in the present expenditure on unemployment doles and the possible return by new profits for Income Tax and the like. For example, if the Government were borrowing at 5 per cent., and the only available economic opportunity for lending the money was 3 per cent., there would apparently be a loss of 2 per cent. But if the use of the money were to employ sufficient men that the dole were turned into a wage, and the saving on the dole to the Budget, either directly, or indirectly through grants, local or Imperial, were large enough, it might be enough to bridge the difference. That is a field for exploration. It seems to me it is financially sound. We are now between the twc ideas. One is that it is the politic thing to get everything going by large public loans and Government and Municipal spending on products without the expenditure yielding the rate of interest which has to be paid. That is one end of it. The other end is that by borrowing money for that class of thing, you are merely taking it away from other uses to which it would have been put; so that really you are not helping the situation. That is what you might call the principle of clear transferability. There is no way of raising that money except by definite transfer from some other use to which it would have been put, if you had not carried this operation through, in place or in time. It is important to remember the time element. It is always possible to borrow money and inflate at a particular moment, compensating by some later deflation. Then you are entitled to say you have achieved nothing by the borrowing, because of the transfer of funds in point of time, just as you can have a transfer of funds in point of place or object. The question is between those two. I do think, with the scope given by the very large Government expenditure on unemployment at the present time, and loss of tax on industries which are not coming into being, there is opportunity for subsidising the difference between the two rates of interest. I think there is some degree of creatability, without falling into the errors of transferability.

3960. *Chairman*: Examining that for a moment, supposing the 2 per cent. difference in interest had to be met out of general taxation in the first instance, do you think that that would be recouped by the saving on unemployment doles?—One cannot tell how much would be recouped by the saving ideally, until you have worked out the individual expenditure of the money.

3961. The difficulty is that general taxation would have to be imposed to meet that deficiency?—Yes, if there was not a sufficient saving on the dole.

3962. But it does not in the least follow that the saving on the dole would necessarily reflect itself in recouping the tax-payer; because if a saving were effected, then that saving might at once be regarded politically as available for something else?—Yes, if you had no lien over it.

3963. It would be part of the Unemployment Fund, not of the Budget?—You have all kinds of budgetary difficulties in this matter. I am riding rough-shod over all book-keeping, and getting behind it. There is a certain amount of money going out now, and no work being done for it; and it only wants a certain addition to it to make it a wage.

3964. It is often assumed that the recoupment operation will take place necessarily if you carry out a certain policy; but in fact things sometimes do not happen in the least like that?—I agree; just as many tariff expedients do not operate as it is hoped they will operate.

3965. *Professor Gregory*: Is your proposal this? If the country is spending up to a given amount, say £20,000,000 on unemployment relief, you would subsidise public enterprise to the extent of £20,000,000? Assuming the ordinary rate of interest to be 5 per cent., you would subsidise any enterprises yielding say only 4½ per cent. up to the extent of the actual expenditure upon the dole?—If the difference was covered by what I could save in the dole effectively, I should not feel that I was doing anything very mischievous. It is not very agreeable, and I should not like it; but it is not finally economically unsound, as it seems to me.

3966. *Mr. Lubbock*: There is a great difficulty in knowing what industries are to have a proportion of the money—how you are going to divide it?—You must examine the thing *ad hoc* and see what employment you will get for the use of the money; and treat it on the basis of individual employment.

3967. *Professor Gregory*: Could you tell us how it could be done? It seems to me the crux of the whole proposal is to know how to select the objects for the subsidy? (*Mr. Bevin*): The abnormal unemployment occurs over only three industries: coal, steel and iron?—There is unemployment in more industries than that.

3968. *Mr. Bevin*: I referred only to abnormal unemployment?—I do not know about that, even, because you are getting abnormal unemployment now in industries which a year or so ago were holding their own. It is spreading very rapidly.

3969. *Chairman*: How do you suggest that the industries to be assisted should be selected?—I have not thought out the administrative machinery for that at all. I am only on the principle.

3970. *Mr. Bevin*: Those industries in which unemployment is now spreading are getting into that position very largely because of the low purchasing power in the three principal industries? Is not that the position?—Yes; and you would begin to get that back. That is what will bring me to consider whether you might not seriously weigh having an *ad hoc* remedy for particular industries. I will come to that in a moment.

3971. *Mr. Brand*: Is this intended to be a temporary remedy, or a permanent one?—The whole purpose of this is to get things going.

3972. It seems to me a vital question where an industry is not making a profit, whether this is to be regarded as a temporary remedy in order to get things going, or whether it is to be regarded in some other way?—May I use a parable, or a parallel? It is quite possible to spend money which has no profit in itself, or even has a loss, in such a way as will bridge over from one state of equilibrium to another. For instance, take the case of a sweated wage industry. You have a very low product there per man output, and you have a very low wage, and there is a state of equilibrium between them. You can quite readily answer as an economist: that is as it should be, and you cannot help it. You cannot possibly pay any more, because you cannot give more than the marginal return, otherwise the business will lose money and die. Therefore, you have a permanent state of equilibrium which cannot be remedied. But supposing somebody comes along and says: "I am willing to take a chance; I am willing to double these wages and see what happens." We know he is in for an immediate loss; but if he so raises the incentive and the physical power of the worker that the new output rises to the point that matches the new wage, you have a new equilibrium. You have run a risk to get it, and you have spent money unprofitably to get it; but in the end it is not unprofitable.

3973. *Mr. Bevin*: That is what happened in the case of the Trade Board legislation?—Exactly. You have a low state of equilibrium. By doing something heroic, even thoroughly uneconomic, you lift that trade into a new state of equilibrium.

3974. Every industry which came under the Trade Board legislation was made more efficient and more profitable than it had been before?—I have not studied them in detail. I am looking at it on the broad principle—because a thing is on an uneconomic equilibrium, and you can only get it changed by spending money uneconomically, it does not follow that you should not spend the money, if you have reason to hope that you can shake it into a more reasonable equilibrium. So that, if there is an opportunity of spending money on a principle which is not sound in itself, and so get a new equilibrium and a new tempo, I think it ought to be tried.

3975. *Mr. Brand*: Your idea is to have an expenditure of Government money so that the circulation of that in the form of wages, and so on, would bring profits back to certain industries; having reached that equilibrium, we should stop there?—Yes, once you have quickened the thing up.

3976. *Chairman*: The limiting factor is the regaining of efficiency?—May I put it in this way. Let me take a domestic parallel. You have a man who is a wage-earner. It is quite wrong for him to spend beyond his income, or to go into debt. Then an emergency happens in the home, and he goes into debt. Everybody would say that he was right to do it. But everything depends on the size of the emergency and the size of the debt. If he went into debt and pledged his whole future to the extent of borrowing £1,000, because one of the children had measles, you would say it was all wrong; but if he went and borrowed £100 to save his wife's life, you would say it was worth while. It is a question of degree and of the magnitude of the trouble and of the magnitude of the loss. Every one of those has to be considered; and, of course, one must not leave out of consideration the degree of the disease in weighing the remedy you apply.

3977. And the direction of expenditure?—And the direction of expenditure.

3978. *Mr. McKenna*: Are you supposing that the adoption of this suggestion would be accompanied by an increase in the total of money?—A question of inflation?

3979. It will not be inflation if goods are produced relatively to the increase in the quantity of money. Are you assuming that?—I am not afraid of a little anti-deflation.

3980. I thank you for that definition. I asked the question for information only, not in any hostile sense?—I know it; but, as I said yesterday, I do not regard every upward movement as inflation, if the whole of the curve is below normal.

3981. *Chairman*: May I just put to you a layman's point. I can quite see that you will get better output from the worker if he is better fed and better housed and is, therefore, a more efficient instrument of work; but that will have a limit, will not it?—Yes.

3982. You reach a position beyond which you cannot go?—You cannot do that indefinitely.

3983. You reach a position when he is comfortable?—You cannot take that risk indefinitely. You cannot say to every industry, as Mr. Ford would have us believe: "Double your wages and you will get it all back."

3984. There are only 24 hours in the day, and there is only a certain amount of work in any man?—You see in force very important psychological effects in a successful industry, and in the tendency of the working man to earn a specific quantity of money in certain successful trades. If you make it too easy to get that money, you do not get the increase of output. That is a fact on which the policy might break down. But, in this particular breaking up of an economic equilibrium and getting a higher one, it does not follow that having done it once you can get it again and again.

3985. *Mr. Bevin*: There is a psychological difficulty from the point of view of the workman, who feels that if he gets beyond a certain rate of income, the employer takes fright and says he is earning too much?—I am thinking of where he is quite willing to knock off days to have leisure instead of money. (*Mr. Bevin*): That is not happening very often now.

3986. *Mr. Brand*: This expenditure would tend to raise prices, I suppose?—I think there would be a tendency towards inflation.

3987. To that extent it would be against our export trade?—Yes. Under the method of looking, not at our national expenditure in water-tight budgetary compartments, but looking at the thing as a whole, there is a considerable scope for bridging the difference between the rates which people will save and lend money competitively as against things abroad, and what business is now offering us. There is that gap; and there is a considerable opportunity of bridging the gap by that expenditure on unemployment.

3988. *Mr. Bevin*: You may remember that some years ago you issued a lot of posters on railway stations, and various other railways did the same thing, inviting us to produce more and so save ourselves. Do you think that if an educational campaign were undertaken, suggesting that investors should be content with less, it might help us?—If you were dependent upon the individual, I should say yes; but such large sums are dealt with in a fiduciary and trust capacity, in which it is the obligation of the board of directors to get the best they can for the money that is entrusted to them.

3989. You see you place such a trust in all these psychological factors and their effect on the workman. It seems to me everything is in a hopeless morass unless we are willing to pay capital exactly what it demands, irrespective of what it ought to get. According to you, unless we do that, we seem to be right in the wood?—I do not think that is quite the dilemma that my mind is in.

3990. I was thinking of the dilemma that we were in.—The individual worker's psychology is the thing I was dealing with. You are asking about the individual investor. He differs from a joint stock company, which is governed by its board of directors. He expects that board of directors to do as much as they can with the money he entrusts to them. The point of psychology is harder to apply to that individual. If you said to that individual: "Save your money, and put it into such-and-such an investment as will attract you for other reasons—not through a trust company, which will try and get the most it can for you"; if you could do that, it would meet your point.

3991. Supposing that in the distribution of the product of industry more of that product went to the working population, and they in turn saved (as they do more than some people give them credit for), and those savings were husbanded for the use of industry in some institution which would give a reasonable, but limited, rate of interest; do you think we might tap great sums in that direction for the use of our industries?—Well, I am bound to say that I am greatly impressed with the increased absolute amount that is being saved by the working class, but I am equally depressed by the fact that, good as that is, it does not fill up the gap in the loss of savings in the other classes which used to save and push industry along, which has now been transferred through taxation and social services. It has not yet made it up. Obviously it would not, because the temptation on a man who has not very much money to divide his income between saving and spending, between consumption goods and production goods, is much more difficult to resist in favour of production goods than it is when it is "clotted" in the rich man's hands.—I am not making any plea that savings ought to be in the rich man's hands—but the fact is, you are going to get a bigger amount saved from an equivalent total income when it is in the hands of the few than when it is in the hands of the many. That is an undisputable fact to me.

3992. You are going to get a good deal of waste, too?—Yes, you get some waste.

3993. As a result of over-luxury, which arises from having such command of wealth?—I do not know whether in the hands of the few the amount spent in what you may call really uneconomic ways is greater than when it is in the hands of the many, if you take into account things which give a lot of pleasure, like the cinema and the like. It is very hard to draw the line between luxury and necessity. However, I am getting away right from my point now, so perhaps I may go back?

The task of the financial system is not merely one of keeping people grouped at the right level for total production; but it is also the more difficult one of dividing the total purchasing power successfully between the production goods and the consumption goods in the proportion in which the individuals who contribute to the financial system had thought they were doing, or had intended; so that the desire of the public to abstain from the consumption of goods is met by the opportunities of investing in production goods neither more nor less. That task of providing opportunity for production goods just equal to the public's purchasing power reserved from consumption goods is a more difficult one even than getting the total equation of production with currency. I know there are ideas current that place great stress upon this particular point. They put the question of business losses in the key position. Probably the Committee has considered these ideas arising from the contrast between investment and savings. I think that the question is extremely important, and wants pursuing right down to the very bottom. I believe it is the key to the present difficulty; and I do not pretend that I have given it the most thorough analysis. If the Committee are dealing with that particular aspect—and I expect they are—I would not like to give a definite opinion as to how far I agree that it is a complete explanation, or how far remedies may be sought along those lines at the present moment. I would like time to turn it over in my mind and put in a memorandum upon it. I will tell you why. There are a number of assumptions in it and a number of points of distinction which I have not explored in my mind; and perhaps if I express them now, the Committee might consider whether they would apply their minds to them. I think it is most important that you should decide in your mind what you mean by business losses from two aspects, one the economic aspect, and also the balance sheet aspect. I raised this point some time ago in correspondence with Professor Pigou. He was querying how it was that my estimate of the national savings of the people year by year did not harmonise with the total capital accretions of the country between two different dates. I took the illustration of a salaried man who saved £500 out of his salary and built himself a garage; but in the year in which he did it his greenhouse, which cost him £200 previously, was burnt down. Nothing could alter the fact that the man had saved £500 in the year; and in any general conception of national savings in relation to national income, that is the figure you have to take. Nothing could alter the fact that his total wealth had increased only by £300 if he was not insured. Parallel to that, you have to think of the total of investments as being the proper conception, when you are pursuing one line of financial thought; but you have to remember at the same time that there are going along with it losses not covered by insurance. Losses covered by insurance are all right as they come out of working expenses. But losses not covered by insurance, a certain kind of business loss, have to be thought of when you are considering the ultimate destination of saving, and what finally happens to savings—you have to think of how those losses have been handled.

May I take the balance sheet point, first of all, because I think it is the most graphic way of looking at it? What I mean by business losses may take four forms in a balance sheet. Two of them have one important economic consequence; and the other two have quite a different economic consequence. I am not sure that I know how this particular line of analysis that is occupying our minds is dealing with loss in this connection. Suppose your two sides of the balance sheet are in equilibrium. The first position is that of profits, and they have been distributed; then the capital assets and liabilities balance. Losses creep in; and you at once get an item on the assets side of the account which is necessary in order to balance it. What has happened? There is the loss to be adjusted. I will just take two types. You have the same total on your liabilities side, and therefore you have to have the same total on your assets side. The fact that you have a red ink item means something else—some assets item have to be reduced. Let us suppose it is depleted stock. The business cannot be carried on with depleted stock, so the business owner has to make the stock up to its full sum. How does he do it? By borrowing money to do it from the bank, which appears as a liability on the other side. The account balances now that the new total on both sides is increased by the amount of the loss—he has been financed for that loss. The second case may be represented by the renewal of a machine, not paid for out of renewal funds, which were first of all provided. They have been burst—they are gone. But on new borrowed money the machines are renewed; and again you have an entry on the other side of the account to balance the account. The third position is when you have stock maintained at a lower figure—no borrowing, but the scope of the business actually curtailed. That loss has not made any demand on the money market at all, but it is there all the same. In the fourth case the machinery has been allowed to run down. The machine has actually gone out of existence, and the renewal fund is not there. You have a lower total of plant. Therefore, your assets still total to the same original amount, but the red ink figure has been taken, not out of stock, but out of the reduced productive capacity—again, the scope of the business has been curtailed. The production has become more costly, with less efficiency. I am ignoring the sale of investments to make the account right, as I think that would only confuse us. Those are the four types. So far as 1 and 2 are concerned, until there is a successful new investment, when new savings are distributed, those losses have to be financed out of savings through the banks. But so far as examples 3 and 4 happen, the losses are not financed at all. The situation of the country is no better, but you have carried those losses without financing them in any way, and new investments in the other direction may well agree with gross savings. I do not know how the business losses of the country are mostly represented—whether in the one form or the other. Till I have made up my mind how the losses are being financed or not being financed—when it is necessary to finance them, I cannot make up my mind. But the big problem is the dis-equilibrium between finance and savings which are going into business losses. That is loss by my balance sheet figure. I do not know whether I have made it clear to you?

3994. *Chairman*: Certainly.—Arising out of that, I want to explore in this analysis what from the economic point of view it is that we mean by "losses." Those who are used to economic analysis will know that we often refer, in dealing popularly with the matter, or with business men, to "normal profit": but the economist, in analysing the factors of production, particularly for the incidence of taxation, monopoly, etc., dispenses with the idea that there is any normal profit whatever. He says that there are all the various factors of production—land, capital and management, and work by hand and brain, and they all get a reward, such that if you diminish that reward from any factor, the supply of that factor would tend to diminish. The total of those factors at the margin represents the minimum cost of production, which really governs the whole market. The business which only gets that cost is just breaking even. Business which makes more than that cost makes a profit. That profit is not in any sense a normal profit. You have allowed for that in the interest on capital. It is a residual in the nature of a rent or surplus. I am dealing now with a convenient method of economic analysis for this very important reason. Any burden which falls upon the cost has one incidence, and any burden which comes out of the residual and does not fall on the business which is just breaking even has quite another incidence. That has such far-reaching consequences in economic analysis when you are dealing with the computation of monetary burdens and taxation, that it may be that it is very far-reaching in this analysis, too. I want to know, when we talk about business losses what losses we mean. Do we mean complete red-ink losses, after allowing interest to everybody, including the ordinary capital and the proper shares to management, and so on; or do we mean losses on ordinary capital only, or do we mean losses on preference capital? It seems to me that I have not explored it sufficiently. I want to make up my mind which are the losses that are significant. I do not know how far I have mystified the Committee; but I hope Professor Gregory and Mr. Keynes see a little what I am driving at.

3995. *Mr. Keynes*: I see very clearly. When I am talking as an economist, I mean by profits the former of the two things you have referred to—namely, what is left over after all the factors have received their normal and expected remuneration; so that if they receive less, then the profits are negative?—As I say, before I can come to any considered view which I would like to give the Committee, I want to explore; but I hope to come to a decision on it in the course of the next month or two. There are several other assumptions that I think are essential to look into on this point.

3996. *Chairman*: We may say that your judgment on that point is suspended?—It is absolutely suspended. I want to know how far can you hope to get right *automatically* on such losses, when you have attacked them by any factor that is common to the whole world. The monetary ones are now making difficulties for us, because of the bad distribution of the total price received between the factors of production giving too little in profits and thus discouraging business. The price might go up in certain circumstances; but the basis of real comparable efficiency in the physical sense remains, whatever your monetary levels. I ask myself how much of the losses to-day are of one kind and how much are of the other kind. How much are curable by alteration of money levels and how much, particularly in the export trades, with all countries now to be equally affected by monetary levels, remain as the basis of comparable efficiency. I do not know how I would divide my various losses between those two classes.

3997. *Mr. Keynes*: If there were to be more investment in this country to the extent of, say, 5 per cent., profits would increase more or less in proportion; and of that about half would be additional profit above what is being made now. It would either be residual profit, or it would turn the residual losses nearly to zero. Therefore, that amount of money, provided consumption does not increase, would be available to finance part of the additional investment which is required, would it not? That would be one example of how the mere fact of there being more investment might bring into existence more profit?—Yes.

3998. Which might go part of the way towards financing it?—I agree. I was going to mention presently the question of exports being entirely dependent upon savings. If you get facilities for exports, you may get bigger profits and bigger savings. It does not follow it is a fixed figure. It is the same kind of fallacy as assuming you can only pay Reparations on a fixed balance of trade. It may be that a special condition forces you to do something and creates the very fund out of which it is to be paid. The possibility of a new outlet of export may in itself make a larger figure of savings than was otherwise available.

3999. Why do you say exports? It is true of any additional activity?—It is true of any additional activity. That is what I mean by the new equilibrium, just as I spoke of the new equilibrium of the sweated wage to Mr. Bevin, so I am on the new equilibrium of production "by a jerk." What losses will really always remain beyond those on monetary lines; and when you have dealt with the latter, what are due to British inefficiency or obsolete machinery, which may be said to need advancement? How far is a foreign loan and its various allied results valuable as causing expansion of trade on competitive terms? How far does it create—which is cause and which is effect? How far is it true that much home and foreign trade is inversely dependent? Cannot the foreign trade when more prosperous create an independent effort of saving distinct from home trade? That is the same point. Can one giving extra good opportunity for exports create a fund of new profit and new saving, not competitive and not cutting into home capital? Then I am not at all clear in my own mind whether we have looked sufficiently into this changing of the rate and its appeal to different levels of business opportunity; and whether we have looked sufficiently at the effect of changes in the rate on the accumulation of capital.

4000. Changes in the rate of interest?—In the rate of interest as affecting the accumulation of capital. I think that is an extremely difficult question. It does not follow that, in putting up the rate, you increase the amount of capital, or that by putting down the rate you diminish the amount of capital; the reason being that the motives for saving are not single, but are complex; and sometimes in certain spheres people will save more when the rate of interest is low, and they will save less when the rate of interest is high. On balance, however, there is no doubt that there is a tendency for the amount of saving to be increased, if the reward to be offered is to be increased, but exactly how much it is very difficult to determine. Obviously you cannot look merely at the demand side of business for money; you have to look at the supply side. It may well be that in lowering the level from 5 per cent. to 3 per cent., you would bring far more business into the scope of those asking for money; but you would bring far less savings into the field yielding themselves up to it. The psychology of saving and the effect of the rate upon saving has to be looked at even if it cannot be determined.

4001. *Chairman*: You are asking a series of questions on this subject?—These are questions to which I am going to address my own mind. I am giving them to you because I think they are vital before one can say that this new analysis is absolutely sound as a remedy, and will not cause an aggravation of existing disadvantages. One has to make up one's mind on the point.

4002. Having stated these questions, I understand you are reserving your view on them; but that you will favour us with your view later on?—If I come to a conclusion, speaking frankly, yes. One of the items in the questionnaire is the extent to which we in this country, I do not say are fixed, but are influenced by the world rate for money—I should say at the present time a good deal more than we were two or three years ago. I do not think that you can give an answer that is going to be right for every year. I thought three or four years ago we were just swinging wherever the dollar took us; but the situation in America, as far as the price level is concerned, has been rather numb, and we probably have more influence now than we had. I hesitate to say definitely that we are going to have a commanding influence on the world rate. It is my own feeling—it is only an expression of opinion—that that may be so. As a matter of fact, I feel rather uncomfortable before this Committee, because I feel intensely ignorant on many of these questions, and hardly entitled to express a judgment on them. This questionnaire raises a point which I have dealt with to some extent, of the alternative between transfer and inflation.

4003. *Mr. Keynes*: What do you mean by "transfer"?—What has been known, rightly or wrongly, as the Treasury view, namely, that if you take money in one way, it is denied to some other source. I do not know whether that is actually the Treasury view?

4004. *Mr. McKenna*: That was the Treasury view, as expressed quite recently. I do not know if it is the Treasury view now. Apparently the view is that there is a fixed quantity of money, and if you transfer any of that fixed quantity from one trade to another, you are not assisting trade at all in general. (*Professor Gregory*): It is a fixed quantity of savings, rather than a fixed quantity of money—at least I think that is what is meant. (*Mr. McKenna*): I do not know. I thought it was money. I do not think the question of savings for a moment enters into the matter. (*Mr. Brand*): I thought it was a question of investment?—Whatever funds are available for investment.

4005. *Mr. McKenna*: If you finance new industries by new loans, you can only draw those loans from the available pool of money—you are not altering the total of money—so you are subsidising one industry at the expense of another. That is the theory, as I understand it?—My general answer would be that I do not think it is quite as fixed and static as that.

4006. That would be my view?—I would not go the whole way and say you could raise any sum of money without having inflationary effects.

4007. *Professor Gregory*: What do you mean by "it"? You said you did not think it was so static as that. Do you mean the real resources?—I do not think the real resources are so rigid.

4008. *Mr. McKenna*: What are the resources as distinguished from money?—Let me put it in this way. I think that a certain amount could be done by ignoring budgetary book-keeping and looking at the relative Government expenditure on the dole. You can go some way with that. I would not be afraid of a little anti-deflation under control, if the situation is still desperate; but I should be very dubious about very large programmes of expenditure upon perfectly general things that have no direct contribution to productivity.

4009. Would not you say that, if you have a certain number of unemployed capable of employment at a profit at the current rate of wages, you have a good case for increasing the quantity of money?—Yes; because I think that is a self-liquidating operation very largely; but I would want to see a tangible return for that.

4010. The supposition is that you have employable labour capable of employment at a profit at the current rate of wages. Therefore, if they are set to work by the use of an additional supply of money, they would make a profit?—It is far better than having no assets at all as a result of what money you put out, and you have a considerable margin to go on. But I am bound to say that I think there is more to be gained by giving the business impetus of higher profits, which is always the mainspring of your machine. Therefore, I look with considerable apprehension on tremendous social costs, falling differentially on British business men compared with those abroad, and offering every deterrent to certain kinds of business enterprise.

4011. *Mr. Brand*: I do not follow that. Do you mean that this very big Government expenditure will not add burdens to business men?—No, you have already got them in very heavy social costs. That is one of the danger-spots. If you could only devise some way of not punishing profits too severely when they are made, and giving an opportunity for that kind of return, that is the best course; but it seems at the moment to be a desperate one. It will come when you have jerked yourself into a new equilibrium. I do not think you can get it straight away. You can only get it by way of heroic and very disagreeable remedies.

4012. *Mr. Keynes*: Which ones?—Such as by the uneconomic device of borrowing money at one rate of interest and lending it at a lower rate, and making up most of the difference out of the dole.

4013. You are in favour of that as a temporary expedient?—Yes.

4014. *Sir Walter Raine*: What about the further extension of the policy of safeguarding industries?

—I am coming to that. Can we close our system a little more than it is by specific and ad hoc dealing with particular industries? I am very anxious that, because of this immediate difficulty, we shall not permanently cripple the export trade and City business; and, therefore, I look with much apprehension on anything which closes us up so much that those two things tend to disappear. On the general question of tariffs, from the economic point of view I am a Free Trader. By that I do not mean that I cannot see circumstances in which protection could maximise the productivity of any particular nation. I think, given time, I could for any country, of which I knew the facts, invent an ideal tariff which would make its total productivity more than it was in the open state; but there is no Government in the world and no constitution that I would trust the scheme with. It would be a very delicate task, and I might be quite wrong. At any rate, as things are, I am quite certain it would not be properly handled politically. It would lead to other difficulties and would be abused. Therefore, while theoretically a Protectionist, I am practically a Free Trader, contrary to most people, who say they are theoretically Free Traders, but practically Protectionists. But the time has come to consider whether the state of affairs is not desperate enough to make a venture. I would not risk giving a tariff to any considerable industry, before it was properly rationalised. I would not give it extraneous aid of that sort because you would have to give it for a period of years. It would not be any good doing it for a year or two. They must have a prospect, if they are going to do any real capital overhauling, of assistance of this kind, if it is on falling prices, for some time. They must have a prospect of it for a period of years. I would not do that if it would merely encourage those who were backward in their efficiency to remain where they were. I greatly fear that a tariff on all our big industries will have the effect of retarding the cutting out of the dead wood. But I would seriously think, as a price for rationalisation, of giving a promise of some assistance, I would risk the political doubts. I know, if you are going to have rationalisation, it means you are going to have more large units; and if you are going to have more large units with tariffs, you have the worst of all political risks. Take the Explosives industry, which is virtually a monopoly at one end. But there is no tariff, and it is open to be shot at from all the world. That is your safeguard against it being abused, whereas if you have tariffs and large units, you are running very grave political risks; and they have all to be very seriously looked at. I have not a scheme myself, but I would be perfectly prepared, for example, to consider a scheme for combining rationalisation of the Iron and Steel industries with a measure of Protection for a period of years—provided that I could make my own steel rails and locomotives, if I wanted to!

4015. *Professor Gregory*: You will be familiar with the attitude of the older economists on questions relating to the taxation of local land in which they always argued that there was a justification for a tariff in order to countervail the burden borne by particular classes of the population. Do not you think, if one is going to confer a tariff in relation to our particular problems, it should only be a flat rate tariff of about 10 per cent.; and the proposal to protect a particular industry by a specialised duty applicable to its own particular problems is not really adequate to meet the situation we have to face, taking all industries into account?—Yes, I think I would accept that. Certainly I would not agree to a tariff of a very considerable percentage. If an industry is not sufficiently good with 10 per cent. to stand after rationalisation, then I should think that we were supporting the weak unduly. I am now merely on an unsound method of getting a new equilibrium again. The one feature in the Protectionist case that is sound is the protection of an infant industry till it gets to its growth. So treat this as a convalescent industry and protect it till it has got its breath again.

4016. We have to face this equilibrium of costs. The degree of protection, assuming it is generally desirable, should not be greater than the disadvantage of the costs to which you have referred?—True.

4017. However, that is a particular problem of itself?—I would not protect it without insisting on evidence of new efficiency. I would provide for rationalisation as a price of the protection; and I would like to see—I have not worked the scheme out—the scheme unnecessary and tariff disappear, if we got a rise in world prices which put the situation right.

4018. *Mr. Bevin*: You would need to have compulsion for rationalisation, would you not?—If the iron and steel industry brought forward a scheme of rationalisation and said: "That is what we propose to do, if we can get such and such a measure," and you gave the measure subject to safeguards, so that you knew it was an efficient industry, and you knew when the disability of its lack of resiliency in present wage costs had been removed through a general world rise in prices, they would get rid of assistance. If it is feasible to produce such a thing, I would look at it—I would swallow all my ancient principles.

4019. *Professor Gregory*: You have been rather pessimistic to-day. You are not very optimistic that British industry will accept that as a solution of their difficulties?—The iron and steel industry in particular?

4020. I meant any industry. Supposing you said: "We are going to give you 10 per cent. tariff assuming you rationalise, and as soon as world prices rise, we are going to take it off," that will not go very far to meet the aspirations of British industry?—That brings you to the question whether you can get the right degree of rationalisation, without some more impetus than we have now towards it.

4021. *Mr. Bevin*: Or some more compulsion?—Or some more compulsion.

4022. *Sir Walter Raine*: Take the trades which have been safeguarded at the present time. Under the Act of Parliament they have to prove to the very hilt that they are efficient. Would you consider, from your knowledge and experience, that any of those trades which are enjoying safeguarding at the present time could be further improved?—I think you have already done a very large part of what you can really properly do by Protection in your existing duties.

4023. May I put it in another way? I am rather anxious to test this question. Supposing the motor industry in this country had not been protected, do you think they would have got an even greater state of efficiency under Free Trade than they have attained with the help of safeguarding?—In other words, do I think the Protection that these particular industries have had enfeebles them, and makes them backward; or do I think they are just as forward as they would have been?

4024. Or are they more forward through getting greater protection? To put it in the way you have done, would they have been more efficient if they had not had this help?—In motors I think the competition, despite the duty, is still sufficiently strong, as it is both from abroad and from internal competition, to make them probably as efficient under present conditions as they would have been without the duty. I am not so sure about silk.

4025. Let us take motors. We know of Mr. Ford and other people who have had to come to this country and make their cars here. Leaving out any question of efficiency, we are getting as a consequence more employment in this country in that particular trade?—Well, nobody disputes that by Protection you can increase the prosperity of a particular industry. If you only protect one, you can do wonders with it. Then you protect a second trade, and the advantages become a little less. By the time you have protected half your industries, the thing, for the nation, begins to turn round. That is the whole basis of the Free Trade case.

4026. *Mr. Bevin*: Take Mr. Ford, for instance. I think he was in Manchester before a tariff was put on at all? (*Sir Walter Raine*): Yes. (*Mr. Bevin*): Does it follow because a thing has a foreign name, like Ford's cars, that there is any less British product in it than there is, say, in the Morris car?—If Ford had done it privately, and it had not been known it was Ford, and it had sprung up as John Jones who had been doing it, how would you have known?

4027. *Mr. Bevin*: Take the Ford car, in which highly-finished English steel is used, while an English car is using Belgian steel. It does not follow, because there is a duty on a car as a finished car, that the whole of that English car is English made. I am just testing how much we are likely to get through this duty, putting it on one commodity. You say it might help to give the industry a sort of convalescence period, and the motor-car trade is used as an illustration; but all kinds of things go into a motor-car which are made under Free Trade?—Yes. (*Mr. Bevin*): Therefore, if you picture the car in the finished state, one may have no more British products in it even if you have got safeguarding.

4028. *Mr. Keynes*: May I put this argument to you? Supposing that for social reasons we fix our wages above the strictly economic level, so that you may regard the price of any home-produced product as being 90 per cent. cost of production and 10 per cent. subscription to the well-being of the working classes payable by the consumer, or, if that is impossible, at the expense of the profits of the producer?—In a sheltered industry or relatively sheltered industry paid by the consumer?

4029. If you argued that imports ought also to pay the same subscription, would you be infringing the orthodox Free Trade doctrine?—You would be camouflaging it all right, I think.

4030. Would you be infringing it, provided that this 10 per cent. was genuinely not part of the proper cost of production? It is different from the situation in which you produce something which you are not very efficient in producing, so that your costs are genuinely 100 per cent. I am talking of a case where, if wages were fluid, your costs would only be 90 per cent., but you are asked to pay a subscription of 10 per cent. for the well-being of the working classes?—A subscription that comes out of the consumer or the producer?

4031. That comes out of the consumer or the producer?—I think it makes a difference which it does come out of. Supposing it comes out of the consumer, every time he buys the article he also pays a tax, and that tax is paid over to the worker, as an educational or family allowance. That is an incident of buying the article. The article comes from abroad, and the consumer equally has to pay it. It would be right that he should pay it on the foreign car.

4032. Supposing it means either it must come out of the consumer or the producer will not be able to make normal profits. If that is the actual situation, if there is no permanent windfall to the producer out of which he can find this over a period of years, would you look on the 10 per cent. tariff as a really protective duty in the old sense of the term; or is it analogous to Excise, and everybody who sells must pay this small subscription towards the well-being of the working classes?—It is very enticing to say it is all right; but I am suspicious of it.

4033. Supposing the sellers of home-produced goods had to make a subscription to the hospitals in proportion to their turnover, you would not consider it right to exempt foreign-produced goods, which were sold at home, from that subscription? It would be unreasonable to exempt them?—It would be unreasonable; and you would have quite a good moral case. I am not quite sure whether I have yet worked out the effects on international trade in my mind—the exports.

4034. Would you let us have a memorandum on it?—No, I will criticise yours.

4035. *Mr. Bevin*: Assuming you had a tariff on steel, and you had rationalisation, would it not be necessary to have some form of real control? You say that you do not mind rationalisation, and you do not mind a tariff, provided that you, representing the railways, can make your own rails and engines. That may have been a joke, but that would apply to everybody else, would not it?—I was using that merely to give a danger signal—that was all—in probably the most conspicuous place, indicating that there would have to be some kind of protection against abuse.

4036. Supposing the steel industry was rationalised and protected, it enters into many other industries, and particularly affects new industries just starting on recent inventions, and so on. Would it not be necessary to have some sort of control based on costings?—If it were rationalised into one or two units; but not necessarily if you keep it rationalised, as I think it would have to be, in a number of units—it would be too big in one unit.

4037. Supposing it was rationalised in a number of units, you could only rationalise it in units of the same type. You would not achieve much if you simply had units with a variety of productions?—Well, I would take my chance with steel without that kind of control that you are referring to. If the tariff were a very limited per cent., with Belgian steel as it is now, I do not think you could abuse it very much.

4038. How would it affect the other parts of steel which are used in products in the export trade? Take galvanised tin-plate, into which steel enters as a prime commodity, where a difference of 5s. a ton upsets your selling price?—I am hoping that the economies of rationalisation would prevent the price rising too much.

4039. I am with you that the economies of rationalisation can produce the Welsh bar all right; but what protection has the next feature of production against the temptation to overcharge, if it is based purely on profit—even a reasonable profit? It may be that you could render a big aid to the tinplate trade, even if you did not charge up to the world price?—Yes.

4040. How can we get that kind of advantage, supposing you rationalised?—You mean they would not pass on the advantage. They would keep it all themselves?

4041. They might keep it themselves. They would have the advantage of rationalisation and the advantages of the tariff, and taking the advantage in selling of the world price?—Well, I have not thought out a suitable form of control, but I have such an objection to tariffs on principle that I do not mind industries which have the advantage of them being subject to something quite special in the way of investigation.

4042. If you are going to increase the volume of employment, you have not got to stop at the bar, but you have to go to the next product?—Clearly.

4043. Assuming Belgian steel rose to £6 10s. a ton, but your tin-plates were selling at 18s. a box, which gives you the opportunity of paying for steel £6 a ton, and it could be shown that with rationalised industry in this country and an efficient method of production, you could produce and sell at a profit steel at £6 a ton, notwithstanding that the competitive outside price is £6 10s., in order to keep up the second use of your steel, it is essential to give to the second user the advantages of your economies on the first?—Yes; the first one must keep enough to make the business incentive of profit, to revive it and make it a progressive industry. More than that could very judiciously be passed along to the other industry. We want a situation that you have enough, but not more than enough, to keep them in a state of vigour.

4044. To keep them in a state of vigour, and to pass it on to the second user, so as to get the second operation of trade in a high state of efficiency, and to keep its trade at a proper level when it is bound by world prices, because it is all exports. There is comparatively very little at home to carry that burden. I am wondering how you are going to do it without control?—With a big tariff I should be nervous, but with a moderate tariff, and the difference between the Belgian standard of living and our own being what it is, I should not be very greatly nervous.

4045. *Chairman*: We are benefiting very much from your assistance; and I think we should like to have you here again, if you could come next Thursday. In the notes you were good enough to give me, there are several topics of great importance which you have not yet touched upon. If you could give us a couple of hours next Thursday, we should be very pleased?—Certainly.

(*Adjourned till Thursday next*, 10*th April*, 1930, *at* 4.30 *p.m.*)

TWENTY-SECOND DAY.

Thursday, 10th April, 1930.

PRESENT:

The Rt. Hon. LORD MACMILLAN, *Chairman.*

Sir THOMAS ALLEN.
Mr. ERNEST BEVIN.
The Rt. Hon. LORD BRADBURY, G.C.B.
The Hon. R. H. BRAND, C.M.G.
Professor T. E. GREGORY, D.Sc.
Mr. J. M. KEYNES, C.B.
Mr. LENNOX B. LEE.
Mr. CECIL LUBBOCK.
The Rt. Hon. REGINALD McKENNA.
Mr. J. T. WALTON NEWBOLD.
Mr. J. FRATER TAYLOR.
Mr. A. A. G. TULLOCH.

Sir FREDERICK LEITH-ROSS, K.C.M.G., C.B.
Mr. G. ISMAY, *Secretary.*

Sir JOSIAH C. STAMP, G.B.E., recalled and further examined.

4046. *Chairman*: Sir Josiah has to leave to-day at 6.45, but I might suggest that at a more advanced stage of our deliberations Sir Josiah might be willing to attend again and assist us on specific points. He has also been good enough to indicate that he will furnish us with a memorandum on certain matters which Mr. Keynes has dealt with. Sir Josiah would prefer to study those topics rather more closely than he has yet had an opportunity of doing and to give us his written views later on. I think this afternoon our most useful course would be to ask Sir Josiah to deal with the topics which he did not discuss last time, perhaps prefacing his observations with a little recapitulation as to where we stand?—I just want to finish some remarks I was making about reorganisation and rationalisation and then recapitulate a little.

4047. I wish you would do that. This afternoon we might be economical in the matter of questions?—I do not think I made it sufficiently clear, when I was speaking of rationalisation and reorganisation last time, that it is not something that we may do to our advantage, but it is really an essential feature of the existing situation. I looked over the questionnaire again and I find that the questionnaire does direct itself to a specific question on that point—"Whether you regard the reorganisation and rationalisation of industry as a national necessity at the present time." I do so regard it because, quite apart from currency troubles and gold values and the like, I do think that we have definitely fallen behind in the industrial efficiency race in quite a number of industries. We have had such a start in the Victorian era that we have been really resting on our laurels too much. You may, however, say, "This is a horrible race to be run at all. Why do it. There is no finality to it," but the fact remains that other people have started it. In the long run, once you get the situation right, it does mean a higher standard of living for the world. There is no point in history at which it would be right to say the division of labour and the substitution of labour, and the like, have reached such an optimum point that it ought to have stopped there. I do not think we are justified in saying that the particular point we are at now in the long line of history is the proper point at which to stop. Therefore, I do not think you should say we ought to stop at this particular point any more than you ought to say you can do a particular job now of a particular kind with the least human effort.

4048. Will it improve our competitive position; is not the same process of rationalisation being adopted by our competitors?—Yes. The point is they have started the race and it is no use saying: "This is a silly race, we shall be in the same position at the end *vis-à-vis* each other." The race is actually on. Unless we wish no longer to be an exporting country and have abandoned the thought of an increased standard of life for ourselves we have to join in the race.

4049. It does not cure the competitive position?—It may. It does not follow because we rationalise and improve the efficiency of a particular unit that other people are going to be an equal distance ahead of us. We may have lost ground for good, but it is just possible that we can considerably lessen the gap and maintain a closer position in relation to the others. At any rate, if we do not make the effort, even if we get all the help we want from the currency point of view, I do not see that we can expect to remain in the front rank of nations. I think it is most obviously necessary with the export trades that are in competition with world prices, perhaps less obviously in the other industries on which such industries depend.

We must not forget the fact that, although we talk about industry as a whole, it is only an aggregation of a number of different parts, and that we have, in the past five or six years, inside a severe trade depression, had a remarkable trade boom. There have been quite a number of industries which have done extremely well. We must not lose sight of the one within the other and imagine that all are necessarily depressed. Two facts, the fact that we could have had a trade boom in relatively new industries, smaller industries, and the fact that we have succeeded somehow or other in employing nearly a million more men by the elasticity of our industries, show that we are not " down and out," and that we have a great and latent capacity. It is not a kind of death rattle. If you analyse industry into its parts, you get quite a considerable amount of encouragement from the point of view of British initiative and ability to equal other standards. I do not think, when we look pessimistically at the whole subject, we place sufficient store by the fact that we have shown an expanding power which has enabled us, despite all our burden of unemployment, to employ something like 150,000 additional workers every year. If we had not had the original burden of unemployment as a result of war dislocation, but our only task was to absorb the increasing working population, then we should have achieved that task. What we have actually done is either one or the other. You can look at it in either way you like. We have either employed the new population, or we have absorbed the original post-war " clot " of unemployment and failed to employ the new population. It comes to the same thing, it is about the same in total numbers. The fact that we have been sufficiently expansive in our industries to do that successfully seems to show that, while the present situation may be very bad, we have potentialities of advance and improvement. I simply throw that out as an offset to the usual pessimism that is now very current.

Then there is a factor that I may not have brought before the Committee, but to which I attach very considerable importance. I brought it out, I may mention, in an address (in order that I shall not have to labour it) on Invention as an economic factor a year or so ago. The point is this. The two kinds of progress must be kept in balance. The first kind of progress is that of making things that people want now—existing demands—much more easily. It consists of inventing better machinery for making them and better processes. By so doing, you free a lot of labour to do new things. Then we have new inventions to make new things and new objects of consumption such as wireless, motors, aeroplanes and that sort of thing. There must be a balance between those two technological advances, otherwise you get a lop-sided effect with labour. As you free labour from one process you have to invent new ways of engaging that same labour on different kinds of things, otherwise the lag is too great, and you get technological unemployment.

If we have no industries that are producing advantageously for export—by that I mean on normal terms with others—then we must allow our exporting power to drop, and we can adopt the expedient of closing the trade circle within our own borders. If we adopted that as a definite goal, it would mean giving up our ambition to have a high standard of life by being a great exporting power. We should definitely accept a lower standard of life with correlative advantages of much greater stability.

Then there is another point on which I do not think I brought out my views quite sufficiently in the previous evidence. On the necessity for rationalisation the questionnaire asks whether the existing machinery for bringing it about is effective and so on.

4050. *Mr. Keynes*: On the question to which you were addressing yourself as to the extent that the process of rationalisation might be expected to provide a solution, do I understand you to say that if we rationalise in order to hold our own in export industries, it might be hoped that if we rationalised effectively we might do more than hold our own and recover some trade? Have you considered reducing that into numerical terms; what would be an optimistic expectation in the way of absorbing men now unemployed into the revived export industries in the course of the next two years?—The process of rationalisation in itself would probably take that time without giving it full effect.

4051. So that you would expect no remedy to unemployment for two years?—Not much from rationalisation.

4052. Supposing you looked further ahead—to five years?—Then you would get the full effect.

4053. What is the order of magnitude of positive improvement you would expect to get, over and above holding our own?—In cotton of the order of half-way between the present or recent position, say six months ago and our best position—our old position.

4054. What I am trying to get at is what is the best hope on those lines in relation to the number of men who are now unemployed. I was hoping to get rough figures. There are about three million men employed directly or indirectly in producing for export?—That is the kind of figure.

4055. That is tending to be on the decline as things are at the moment. If we rationalise we may hope, you think, to stop that decline?—Yes.

4056. What sort of annual increment to that three millions could we expect to get through increased exporting?—Well, taking cotton again I should suggest that, even when we have rationalised with the reduced labour, by that means in itself we should not get back every market that we have hitherto had. We know the reasons for that. Other countries have got their own development and the like. But I should hope we might employ half the persons now unemployed, a proportion of that order, in that particular industry. From that point, having done that, on the increase in world population and world trade, we should hold our own in a general increase. I do not know whether that is the kind of consideration you mean.

4057. That is to say, you would not expect to absorb all the people who are now unemployed in the export industries. You would expect to absorb a portion of them, but not the whole?—I think we have to look to a permanent loss in the total world market in those industries even after we have rationalised.

4058. So that, in terms of the present unemployment of more than a million, you would expect no material help from rationalisation in the next two years, but looking further ahead you put it that something like a quarter of a million would be quite an optimistic estimate of the number to be employed out of the million and half unemployed strictly in the exporting industries?—One is somewhat in the region of guess-work there, but I should think that is rather on the low side.

4059. 350,000, which is more than ten per cent. 300,000 would be ten per cent. You think that would be optimistic?—I think that is the kind of figure I should have in mind, but employment in the export trades is not the last word about it. That is only the beginning of that particular cycle.

4060. *Professor Gregory*: You do not mean that the total reduction in the volume of unemployment that is to be expected from improvement in the export trade is 350,000, but that the old staple industries, assuming everything went well, would absorb of the present unemployed about 300,000 and, therefore, there is a margin for the other industries to give us?—The questionnaire seems to be addressed to rationalisation in the export industries, but I am assuming the export industries have the advantage of rationalisation in the other industries —that not only do they have it, but the home market has it, and there is additional freed purchasing power there too.

4061. *Mr. Keynes*: So that if you absorb 300,000 men in the export industries you would perhaps absorb at least another 150,000 in consequence?—Quite of that order.

4062. Another 200,000?—Quite of that order.

4063. In consequence of that?—Yes.

4064. So that you would reach half a million?—Yes.

4065. From 2 to 5 years hence?—Yes.

4066. The drift of my question is this; many people say the only remedy is to be sought in the export industries. I was seeking your opinion as, if that were true, it would leave us almost inevitably for a number of years still with very abnormal unemployment?—Oh, no, not inevitably. I think there is a very important point of departure in the export industries. It is most important because of the effect on London and all the other activities which are correlated to the export trade, but at the same time that you are doing that you are making a better situation in the home market and perhaps the general quickening may absorb them even more quickly than that.

4067. *Professor Gregory*: Do not you think that one of the effects of the great increase in the rapidity of technological improvements all over the world will be that the temporary volume of unemployment to be expected as a consequence all over the world is likely to be greater than it was in pre-War days?—Yes. When I am giving these estimates of improvement I am taking into account the immediate effect of rationalisation set off by the larger markets taking more units of production—I am looking at it taking the two together.

4068. *Mr. Brand*: You think, therefore, any plan for helping things should not be a plan which would put burdens on or disregard the export industries?—Certainly not put burdens on them. You could elect to say you will not subsidise them, or you will not attempt to make them larger than they are.

4069. But you must pay some attention to your export industries as compared with your home industries?—The price you would have to pay for, say, putting the cotton industry in command of the percentage of the whole world trade that it used to have would be too great for the job. I think you would have to recognise that fact.

4070. *Mr. Lee*: Could it be done at any price?—It is very difficult, of course, without artificial aids of various kinds. The question of how to get these measures of rationalisation more readily entered upon, of course, is a question of psychology rather than a question of economies. But my own business touches a very large number of different businesses in the country, and I mix up with the leaders of those industries, and I get their mentality. They all of them, without exception, recognise the necessity for rationalisation in other people's industries. In their own, their case is exceptional—it is quite peculiar.

4071. *Chairman*: There are always exceptions?—In their own it is quite peculiar, and their conditions are quite different from anybody else's. The necessity for getting together and doing anything is not the same. The way of doing it that other people have adopted would never apply in their industry and so on and so forth. One gets very downhearted about the possibility of their really being got together to achieve anything. They lack sometimes a commanding personality whom all will recognise. They have great personal jealousies. Behind them are various banking positions of unknown degrees of solidity and jealousy. Altogether it is a very difficult position to resolve. If you try to precipitate it by Government agency, that raises every kind of political difficulty. The Bank of England has a certain central position which enables them to act as a catalyst or precipitate, but I do not regard it as the function of a central bank to be in industry like that. If, however, nobody else will do it, and it is best to keep politics out, then it may be the duty of the Bank to come in, particularly if no individual financial institution or joint stock bank is in a position to do it without raising the bristles of all the others. I cannot help thinking—this is only an impression of mine, and I am not able to back it up with statistics or facts—that the joint stock banks who are carrying the weak members should once and for all give up looking for better times for those particular members and also maintaining the priorities for their own benefit and keeping the beautiful position of their own balance sheet. They ought to precipitate matters by pressing the debtors and making them deal with the situation. They are in the very best position for precipitating amalgamations and rationalisation if they will exercise the pressure, and if they will not as a price of it insist on coming out on top in reconstruction priorities. I know it is hard doctrine, but I think we are not going to get right until we have a certain number of healthy bankruptcies.

4072. *Mr. Bevin*: Not of the banks?—The banks are so strong that they can stand a good bit of it, in my judgment. I know I shall be severely criticised, but I am bound to give the Committee my impression. I think if a business ought to go bankrupt, either by the accumulation of its financial difficulties, or because it is physically inefficient, so that it would take an unduly costly amount of oxygen to get it rejuvenated, it is false kindness to society to delay the process, or to burke the process I do not think there is any real hope in a case like that. So that, quite apart from any connection I have with the Bank of England, I think it is right, where nobody else steps in, that they should be available, at any rate for a period of years, to see the thing through, even if it costs them some money. Probably if they do their work properly, it ought to cost them some money, that is to say, a certain amount of loss is essential to this process. If those in control of the money machine are always to make profits, or save themselves, whatever happens elsewhere, I do not think that you can really get the best results.

On the other hand, this question is not entirely financial. I have been very much impressed with the futility of financial re-organisation. People think that they have done something when they have constructed a consolidated balance sheet and re-classified various kinds of shares of different companies into a new amalgamation. But they have done absolutely nothing. They ought not to have done even that until they have had preliminary technological investigations and advice. What happens is that the "dud" gets into the new capital reorganisation with recognition of past results, of past capital, which is altogether above its future potentialities, thereby, as with the quotas in the Five Counties system, loading up the best people with a recognition of the capital of the less efficient people on favourable terms. They then involve a permanent load on the rest. Until technological advice has been given, as to which of these really ought to "go out," you are not in a position to know what is the most just thing and the most reasonable thing for them on a scheme of financial reconstruction. I have been impressed with the necessity for the best technological advice preceding even financial reconstruction. Of course, you cannot carry out effectively the result of technological advice until you have had financial reconstruction, and can raise new capital; but the framework of financial reconstruction cannot be prepared and justly laid out until you really know, not the ancient past, but the actual technological potentialities of each unit for the future. I do not think people recognise that sufficiently.

4073. *Chairman*: If you put in as managers the very people who have brought the business to disaster, the assumption is they may start again on the same vicious course?—True. Where you get a large number of small mid-Victorian units and family units, that problem is extraordinarily acute. It is a very difficult position.

4074. *Mr. Bevin*: And a drain on it?—Yes, that may be so, if you try to get them all in; but even with the process of exclusion, you may not get financially the best ones. Man-power on the management side is very difficult.

4075. *Chairman*: It is a question of brains as much as money?—Quite.

4076. *Mr. Bevin*: Would you put an age limit to management?—I am not very keen on age limits for directorates. I think very often the necessity for that is grossly over-exaggerated. But I think there is a lot to be said for not having too great an age for a new executive job. I do not think any man over 65 ought to be in a position to veto finally the suggestions and work of men under 45, not when you are putting in absolutely new schemes. Let them give their opinion by all means on the Board, and let them have their due weight in decision; but not in the actual choice of men and the executive management of the business.

4077. *Chairman*: You have to make a distinction in these matters of age. In matters where initiative is important, youth is valuable. On the other hand, where experience is required, on the more cautionary side, age may then play its part?—That is very much my own feeling.

4078. *Professor Gregory*: I know nothing at all about relative merits of rationalisation as organised by technologists, or by business men; but do you not think there is a certain danger, which has been shown in the case of Germany, that technologists do not always consider what the circumstances of the market will bear in the way of capital re-organisation and adjustment?—The technologist by himself will run you underground before you know where you are.

4079. You are not implying that the technologist should have the last word?—No. But you can say to the technologist, if two million units have to be produced at the lowest cost, how would you produce them—that is one sort of question for the technologist? But on the question whether, having done that, what is the price at which you can market them, or how you are going to market them, or what kind of rings or agreements you are going to make with foreign countries, or whether you will or will not enter into cartels, whether you will enter into an industrial division of the world and so on, the technologist is no good finally about those questions.

4080. *Mr. McKenna*: I am not quite clear what you wish the Committee to understand as to your view of desirable action on the part of the joint stock banks. I am sure any joint stock bank in the country would attach the greatest importance to your opinion as to what their course of action should be. But I am not quite clear that the position is understood. Take any industry you like, the most depressed industry, and take the group of accounts in that industry at a bank. Speaking for my own bank, I do not think there is any industry in which the majority of the businesses having accounts are not making a profit?—I dare say.

4081. We will suppose they have all overdrafts at the bank, and the majority are paying their interest and making a profit, what is the bank to do? Is it to force into bankruptcy the companies that are not making a profit? Is it to force those companies that are not making a profit to combine together under exceptional capital advantages to compete with those that are making a profit, when admittedly the market for the output is limited? I do not think any joint stock bank has yet had any clear guidance as to what is expected of them in the circumstances I have described. Can you help us?—Well, I told you at the start I was only giving you an impression. If the joint stock banks were to show me what proportion of big concerns they were holding, and what lengths of time they had been holding them, and I found that there were no such cases, then my opinion would be quite wrong. But I have come into contact with quite a number of whom it has been said: "They are being held up by the bank. The bank will not let them down," and one imagines that those concerns are not prosperous concerns. If the joint stock banks were able, by etiquette or practice, to get together in a particular industry and to say: "We realise that this industry is 20 per cent. too big at the moment, and it ought to have 20 per cent. fewer factories, then surely the weak people ought to go out. Technologically we cannot say; but from the financial point of view those are the weakest, and they are the ones who would not be capable of going on without continued assistance. If we put them into an amalgamation, we shall lose a lot of money. Our advances to them will go." It is said "Trade will revive and we must keep going for another year and then they will come out on top." That is the sort of feeling. But to face up to the situation that trade was not going to revive until rationalisation on the financial side has been carried through, would involve the recognition that a certain number had to go out for financial reasons. I suggest a kind of round table conference for talking it over between the Five Banks on some particular industry, with a recognition that it is too big, and a recognition "If you give up one, I will give up another. We will each make a sacrifice and each have a nasty blot on our balance sheet." Whether that ever takes place, I do not know.

4082. Would you regard it as desirable in the interests of the customers that it should take place?—Not on any basis of past etiquette or practice.

4083. One must regard all the facts as known at any particular moment. It is quite easy to back a run at Monte Carlo after it has happened?—Yes.

4084. But you do not know beforehand that it is going to happen? All these different accounts are not continuously bad accounts. One company which is due, we will say, for winding up on this view might show on the last six months that it is making a profit. Should you disclose facts of that kind to the other banks against the will of your customers?—I see the very greatest difficulty.

4085. In dealing with an enormous number of accounts, it is very difficult?—I agree I do feel the difficulty. On the other hand, the key to the position with regard to contraction, if they will not act themselves and put their affairs into the hands of a common agent, is with the banks. Take the Worsted Trade of West Riding, which is very typical of the Victorian attitude of mind and of too small units for modern ideas, with tenacious family views and great inter-business jealousies. Supposing they were all to get together saying: "No one of us will put the job in the hands of any other, but we have all agreed that this thing must be put together in the most convenient large units and a certain number of small factories closed down. Let us ask McLintock or Plender to come in and give them a free hand to say which they are to be"; that would be a much better way and a more voluntary arrangement for doing the same kind of thing on the recognition that the position is wrong. In that the banks can precipitate matters.

4086. *Mr. Brand*: Do not you think there is a difficulty owing to the different relationships of the English bankers to industry, as compared with the German bankers? If Mr. McKenna were the head of a German bank, he would be the Director of at least a hundred industrial concerns. He would constantly bring before the Boards his wide knowledge, not only of this country and of one industry, but of other countries and of the international situation, and would constantly be advising them to take this broader view. But the banks here, through history and tradition, and British principles, are not in that situation?—I say straight away that what I have suggested could not be done with the maintenance of the old English traditions of banking. It would mean a complete departure from them.

4087. *Mr. Tulloch*: Could that be done at all? Even in the most successful industry, there is always a number of firms which are weak. Would you make the banks the arbiter with regard to every industry as to whether that industry should be contracted or whether it should not be contracted. It seems to me it comes to that. So far as individual cases are concerned, the banks in fact do exercise very considerable discrimination in relation to advances. It seems to me it would be very difficult indeed to throw them into a general pot, and discuss what proportion of firms in any industry should be closed down?—But they may actually have this round table conference I am referring to.

4088. I do not think they do?—If they do not, lack of knowledge of the position each of the other must be less advantageous for the community as a whole than the wise and ordered co-ordinated knowledge of the whole Big Five.

4089. *Professor Gregory*: I take it you would not recommend this procedure except when some impartial investigating body has already clearly made up its mind that the prospects before a particular industry are somewhat sombre?—Obviously it has got to be the last remedy. It has got to be the last method of precipitating the process of rationalisation.

4090. You mean everything else being worked out, the plan being ready and submitted to the bankers as a whole?—No, I do not suggest that. If the thing has been done, and the process has been worked out, the bankers could then come in as arbiters. I suggest a little mutual agreement on their part to exercise pressure that it should be done. They would call in the technologists and accountants and say: "Produce a scheme."

4091. I quite see that from the standpoint of the joint stock banker there are not only difficulties in disclosing his accounts to any other bank, but there are also all sorts of relations between old established bankers and old established firms which might be very difficult to deal with?—Those are the very things which are making the stickiness in getting anything done. So long as the banks will stand behind them, they will not do anything.

4092. They are very human factors, which one has to take into account?—I am quite willing to admit that you cannot do what I suggest without a complete breach of past bank traditions. It means that, dealing with a desperate state of affairs, I am prepared to pay a high price.

4093. *Mr. McKenna*: I do not know that your previous observations truly hit the case. Let us take it that the banks advance to industry to-day something like £1,000,000,000. 1 per cent. on £1,000,000,000 would be £10,000,000; ½ per cent on £1,000,000,000 would be £5,000,000. I do not think the losses in industry are anything like that in the way of the bad debts of the banks. The bad debts are not giving so much loss as one would expect from the language used. The bad debts of a bank would be exceptionally heavy if they amounted to ½ per cent of the advances?—Then the cost to the banking institutions as a whole of re-starting without indebtedness rationalised industry is not as bad as I feared it might be. I was rather afraid it would be a high price for the banks to pay.

4094. The price would not be high—that is not the difficulty. The difficulty is how and when and where one can exercise justifiable pressure. You have no means of knowing?—It may very well be that every individual is doing all that is possible now; but I feel that when you get a situation to be looked at as a whole, unless there is some co-ordinating of all this support of the banks, then there is something less than that true knowledge which might alone deal with the situation. (*Mr. McKenna*): I believe that is true. There is a lack of knowledge.

4095. *Chairman*: I am equally sensible of the kind of difficulties which Mr. McKenna has spoken of, but on the other hand we do know that in practice all overdrafts are under the close scrutiny of the central management regularly. I am not criticising that practice; but the bank manager is in the position to know by that practice which of his customers are in a precarious position. He sends his instructions down through the branches to call upon a man and ask him about the state of his overdraft; why it has increased; or why he has not repaid so much. A great deal of information is available for the banks—not necessarily in common but for each individually as to the state of accounts in an industry?—Yes.

4096. While it might not be possible to get initiative on the grand scale that you have spoken of to co-ordinate industry generally, it is possible I should imagine for a bank to say to a particular customer: "Look here you are outrunning the constable. You are going to have no more and you must pay up part of your indebtedness". If he is not able to do it, it is then open to the bank to liquidate that individual customer, but whether you can do that consistently with carrying on banking business is a different question. You can certainly bring pressure to bear on that individual customer by saying that he is going to get no more help. That might happen with regard to ten or fifteen or twenty of the less prosperous customers in the industry. The bank is to be the person who is to weed out or to shoot the lame dog, so to speak. It is an invidious position?—No doubt that can be said.

4097. *Mr. Brand*: I have often discussed this question with foreign bankers, Germans, Americans, and others. Is not the position in those countries the result of the inculcation over a period of years by the bankers of the need for doing this sort of thing among the industrialists? There the bankers have much closer relationships with industrial directors?—There one can induce the right psychology.

4098. There they induce the right psychology, but here they do not because the bankers are more separate from industry?—A banker recently wanted me to buy a business. The bank had been practically running this business. It had been run under their direction by their own agent for some time. They said: "It is not our job. We want to get rid of it". I said: "This industry is already too big. There is no market for its products. Why don't you close it up". He said: "And stand the loss ourselves?" I said: "Yes".

4099. *Mr. Lubbock*: All you are saying applies to the state of the Lancashire cotton industry and what has happened there. Does not that exemplify what you mean?—I have always understood that the banks are fairly heavily involved in connection with the cotton industry, and really there is assistance by bank capital to a very large part of those concerns which but for their help would have gone under.

4100. *Chairman*: And ought to have gone under, do you say?—Yes, some of them.

4101. *Mr. Lubbock*: Such co-operation as you have described if applied at an earlier stage might have saved a good deal of trouble in the Lancashire Cotton trade?—Yes, if it had been recognised that the industry was passing into a permanently new phase and not merely in an ordinary depressed cycle or a bad portion of a trade cycle—then their attitude towards the situation would have been different. They have said to me in the West Riding: "This industry has seen ups and downs many times before. We have had downs and we have always got ups. Soon we are going to get our ups." If you say to them: "No, you have got down and there is no chance of getting up," they absolutely refuse to believe you.

4102. *Mr. Lee*: Do you know how many firms there were in the Lancashire Cotton Corporation?—178 was the last I heard. 40 rejected.

4103. 250?—That is since. (*Mr. Lee*): 47 they refused to take at any price.

4104. *Mr. Tulloch*: There is one thing I want to be sure of. You would not suggest this co-ordination and discussion among the banks except in relation to an industry which was clearly under the weather?—It is the last resort. It is when nobody else will act and you have got an absolutely costive position in industry.

4105. *Mr. Keynes*: The banks have changed their attitude a great deal in this matter. When I was first taking an interest in the Lancashire cotton industry, every bank unanimously declared it was against their principles and traditions to do precisely those things which they had to do a few years later. (*Mr. Tulloch*): What did they do? (*Mr. Keynes*): Put pressure upon their customers to enter into a body such as the Lancashire Cotton Corporation. (*Mr. Tulloch*): There was no such Corporation in existence when you came down first. (*Mr. Keynes*): The question was raised whether there should not be, and the bankers all declared it was entirely against their practice or traditions to aid any such body. Reverting to your example of Yorkshire and the woollen industry, this is one of our greatest industries, and notoriously in a terrible condition, but apparently nobody is doing anything collective about it. Is it the result of the evidence you have given to us that *primâ facie* all the banks who have important interests in Yorkshire ought to come together, and consider whether it was not their duty to take the initiative in some scheme for the Yorkshire woollen industry, perhaps analogous to what has been done with the cotton industry?—I think they might come together and say: "It is not our business to be in this industry as an industry, but if we allow things to go on we are all going to lose because the whole industry is going under. How are we to protect our own interests." If they put it even on that ground, and not go so far as a national interest, they might be more able to combine together and combat the position.

4106. *Professor Gregory*: Your evidence seems to point to the need for some sort of periodical meetings of the joint stock banks, not waiting for the time when the whole country is in a rather serious situation, and not waiting for an opportunity to do something *ad hoc*, but some sort of consultation between the banks for the purpose of considering the wider problems of economics from time to time?—Yes, without necessarily revealing any particular details.

4107. *Mr. McKenna*: In the case of the wool industry, we have been able in our bank's wool accounts to make more than one amalgamation without going to an outside bank. There has been that endeavour without consultation with anybody else; it is beyond question; there is evidence again and again of that. What else can we do? We are not wool experts.—If they get into a more difficult position are you going on advancing money to keep them going?

4108. We shall determine whether we shall advance more money or not according to the prospects we have of being paid.—A point must come, if the industry is going down and down, when you will have to decide whether you shall call a halt. I suggest if that is the position you have to come to some day, you might perhaps come to it earlier.

4109. You said, "If that is the position we have to come to." But we do not know if we have come to it. If there is a rise of 10 per cent. in the price of wool the position would never arise. We cannot say in the expectation that wool is going down another 10 per cent. that we are going to force this, that, and the other company into bankruptcy before the price has fallen.—That is to say you can never avoid an accident; you can only pick yourself up after it has happened.

4110. There will not be an accident if the price of wool does not fall any more.—I do think it might be possible for the banks to consider whether the industry as a whole is ever likely to get back to the pre-war position.

4111. *Chairman*: I see what you are in search of. You think that some initiative is necessary, that the individual manufacturer is very sticky and difficult, and some pressure has to be administered from some quarter. I gather you think that Government or political pressure is undesirable?—Yes.

4112. And therefore you suggest that the pressure might be administered by the banks. As to where the banks can administer the pressure, or how they could administer it, that might be a difficult problem?—Very difficult.

4113. Apparently they are the only persons in your view who can administer the pressure expediently?—Well, they are in a peculiar position to do it. Whether they can do it wisely or well I do not know. I would not find fault with any particular bank; I would say that every one of them separately is perfect, without a perfect whole, just as every member of this Committee is perfect, but it does not follow that it is a perfect Committee. (*Chairman*): That is a very sound observation.

4114. *Mr. McKenna*: I can tell you the difficulties of one bank. If you reduce the matter to figures, as you can quite easily, I think you will see the purport of my argument. I could undoubtedly force two companies to combine together to-day, or break them. If I break them I must write off an immediate loss, we will say, of a quarter of a million. I think there is every prospect that the drop in wool will cease, and that I shall suffer no loss at all. They are all very obstinate; they will not come together; and therefore I am forced, under your doctrine, to resort to the extreme measure of writing off a quarter of a million?—If it is the considered judgment of the banks together that this industry is to recover and these losses will be made good, and that all will come right, they ought not to break anybody, or take any drastic action, but if it is their considered judgment that a good part of the industry will not come back could they not say "Sooner or later we shall have to write this off, and can we not each take our medicine now?"

4115. *Mr. Keynes*: That always is their considered judgment, is it not?—That it is coming back all right?

4116. Yes.—That is my trouble. I was coming to that point. It always has been their considered judgment that this is a temporary phase in the economic cycle, that it is coming back. I ask seriously, do we believe that in our industries to-day?

4117. *Mr. McKenna*: In the case of wool I am still of opinion that the drop in the price has probably gone as far as it can go.—If there is any technical deficiency in that industry then they will be in the same position as any other comparative industry abroad who will also be enjoying the benefit of higher prices. The price difficulty will be out of the way, but the efficiency difficulty remains. If these mills ought to be concentrated in larger units, and ought to have a change of machinery, the pressure will still have to be gone through, and you only face a temporary difficulty.

4118. I quite agree the proprietors of the mills ought to know that it is in their interests to rationalise. I am only dealing with our power to compel them. (*Mr. Brand*): I should say that in other countries banks have a much closer association with rationalisation than in this country. I do not think it is due to compulsion. It is due to different relations between the banks and industry in those countries.—If that is so, having admitted that it means a complete breach with past British practice, I have some justification for the argument in that there is abroad a totally different state of affairs.

4119. *Chairman*: May not the answer be that it is necessary to create some new organisation?—It may be so.

4120. The fact that the Bank of England has departed from its policy of seclusion, as we now see, apparently as a result of the emergency, indicates that something different in kind, not merely in degree, is happening, and that some remedies of quite an unusual description are required?—It has gone along the river bank and seen the body in the water and a lot of able-bodied people who are not jumping in, and it has said, "I do not even know if I can swim, but I am going in after it."

4121. We will ponder these things.—All I wanted to indicate was, that I do believe when you get to the emergency that we are in you want the best centralised co-ordinated consideration of every problem that you can get to understand it if half a dozen people come together and look at the problem as a whole.

4122. *Mr. Bevin*: In Germany, you say, they have done all this, that, and the other?—They have created a psychology in Germany which makes a particular industry extremely self-conscious, and half ashamed of itself, if it does not do something. Awkward questions are asked by the Local Committee and the National Committee—"What about Industry X; what is being done?" and the consequence is that the people who are running it, instead of saying as they do here, "Rationalisation for everybody else, but not for us," feel that the onus is on them to show what they are doing.

4123. They have carried rationalisation further in Germany than they have here?—Yes, and further than I think is wise.

4124. What is the effect of it all on unemployment?—The immediate effect on unemployment is bad, but the ultimate effect, in raising the standard of life, should be good.

4125. It does not show much improvement in Germany yet?—Not yet. I think they have gone too far.

4126. You mean the banks will have to act as a brake on the rationalisers when they have got to the right point to stop, as they will have to do in this country. Assuming we tried to follow Germany there would have to be a brake either way, would there not?—Yes. I do not know whether our mentality is quite so regulated as the German, whether we should ever go so far.

4127. With regard to rationalisation, what consideration have you given to the mental capacity of the people who are called upon comparatively suddenly to run these big units? The big units that have developed in the past in the main centred round a personality, some driving force like Lever, or somebody of that character. Do you see anywhere to-day in industry the people who have the mental capacity? You get the banks, you get the employers, and you get everybody organised in these big units. Do you see the management capacity, when people are suddenly put in, to run it efficiently even when you have got the big units?—Of course the capacity is of a different order for running a big business that has been built up as a single unit and continually extended, from collecting a whole number of existing units together and making a consolidated whole of them. They require different types of mind. You ask me now whether there is a plentiful supply of people who can do the latter job?

4128. Yes.—There is not a plentiful supply of people; they are scarce; but the technical knowledge is a thing which is capable of being passed on to intelligent men. The kind of experience required in consolidating an industry, to know which factories should be shut, and the evidence upon which they could be shut, is a thing which, with a certain translation of terms, can be passed from industry to industry, and given men of the requisite knowledge and intelligence that experience can be cumulative, that type of man can be gradually evolved. Just as the old management required certain qualities, force of character, so the new management which is rather different, can also be educated for it. There are a few people who are born to do it, and who can see their way through; there are others who could quickly learn from their experience.

4129. I do not like to call it "rationalisation," because I have not really seen any rationalisation yet, but in the big mergers that have taken place is it your experience that up to now there has been colossal waste?—In those that I have seen, of course, there has been a very steady war against waste, to eliminate it; they have desired to avoid overlapping, and to collect all the individual items that can be collected into one. But if you ask me whether there can be waste at head offices because of inflated ideas generally because it is a big merger, I agree.

4130. Take the technological waste that is going on, constructing things in big works, without any apparent judgment as to the volume necessary to use it to 100 per cent. of capacity. To give you an illustration—I believe it was done on a bank overdraft—I saw a huge machine put in at a port, not one of your ports, which if you were handling, or if there was any likelihood of your handling, 1,000,000 tons a year, would be a great economy, but there was no prospect of handling more than 100,000 tons a year, and it has been a dead waste. It displaced labour, certainly, and involved huge capital expenditure, but it is a dead loss. That was one great merger. I could multiply that instance from observation—going from industry to industry. These changes seem to me to point to a lack of managerial control of the technicians. I know the technicians will eat up all the capital that you have got, as you say, very effectively. That is the kind of thing you see, a whole plant very nearly erected, then there is a change of plan and it is pulled down. The money seems to be poured out and wasted. The big merger has not struck me yet as productive of the kind of economy that one would have expected?—Of course I cannot criticise your experience.

4131. I was wondering whether you had come across it?—Oh! yes.

4132. And how we are going to get over it?—I have seen very remarkable examples of economy of amalgamation both in England and America; in fact America has run the question of economical manufacture and utilisation of every portion of the by-product, and so on, to a remarkable extreme, considering how extraordinarily prodigal they are in consumption. They are extraordinarily economical on the production side and extraordinarily wasteful and thriftless on the consumption side. It is a very remarkable contrast. In Germany and this country I have seen examples of very great advantages coming from central direction. I am not so pessimistic as Mr. Bevin; I know there are glaring examples of overshooting the mark with regard to productive capacity and so on.

4133. There is one point which worries me and that is this: if you take the producer class to-day in industry, they are fairly steady over a period of years, there has been no increase in proportion to production, while the distributive class in various forms has gone up enormously. I am wondering how you can reconcile the continual drive of production and the addition to the cost of production which rationalisation hopes to prevent?—That is my very next note, to tell the Committee that I think the rationalisation process is wanted in distribution to a very important extent, and that one is impressed with the very large proportion of the national income that is going in purely distributive activities; instead of diminishing, it is increasing. I consider that the whole distributive machine wants complete overhauling. We have seen it, of course, in the distribution of coal. It is wasteful in the extreme that so many people should be handling it with such overlapping of routes and methods and plant. It is an extraordinary handicap to any kind of advance we can get on the productive side. If we look only at the productive side and get no corresponding improvement in distribution we are not greatly improving the position. Of course, something of this has been due to the great currency changes. Let me give you an example. Owing to the high prices during the War and just after, and their rapid fluctuation, the retailer came to carry far less stock in volume than he used to do. Instead of ordering at relatively infrequent intervals, and carrying the stock on his shelves, he orders little and often. The number of consignments of handled merchandise on the railways per ton has probably gone up three times since before the War, pointing to a completely different habit of mind on the part of the retailer. He has been helped, of course, by the wholesaler and distributor, who have got into the habit of being able to supply him very rapidly with what he wants at very short notice, by telephone, if you like, each day. Therefore he lives from hand to mouth with his stock, and by doing so he has been able to avoid a large increase in capital, and he has very largely thrown the risk of fluctuation of price back from himself to some anterior stage in the process of distribution. It is very nice, of course, to go into a boot shop and ask for a particular type of boot and to be told "We have not got it in stock, but you shall have it to-morrow morning"—that could not have been done before the War—but it is a pretty costly luxury to society. Whether it is worth the cost of it I do not know, but it does represent something like a revolution, and throughout the whole process, distribution seems to be much more particularised than it used to be, and therefore much more costly. Nothing, or very little, has been done to rationalise distribution, and to reduce the proportion of it that goes into the total price of an article in that direction, as it should have been.

4134. *Chairman*: If you do not get the benefit of a reduction in the cost of production communicated to the consumer you do not get the trade revival that you want?—No. And it is not enough if that part of the reduction of the cost of production is passed on. The distribution is so large a feature that what is ten per cent. reduction in the cost of production by the time it gets to the final stage may be only three or four per cent. of the price.

4135. *Mr. Bevin*: To what extent has that been affected by the method of distribution of proprietary articles? For instance, what used to be a pound of sausages is now 12 ozs., plus advertising, and that applies right through industry; it affects the volume of consumable goods?—I do not know whether this comes within the remit to the Committee. I regard the amount that we expend in coaxing ourselves to buy the things that we do buy as a perfectly ridiculous proportion of the total activity of the nation. I think that is Mr. Bevin's point. It is very wasteful indeed, not what I call informative advertising, telling us what there is to be bought, but merely browbeating and terrorising us into buying it.

4136. *Chairman*: What advantage can there be in advertising six different kinds of shaving soap in every newspaper in the country? (*Mr. Bevin*): It helps us to solve the unemployed problem by employing more printers. (*Mr. Keynes*): It enables us to get the papers cheap. (*Chairman*): That is quite true.—The only advantage is that it subsidises the news, and possibly is a means of public education.

4137. *Sir Thomas Allen*: The problem of distribution is vastly different to-day from what it was in pre-War times, on account of the rapid change in fashions. Sir Josiah has given us the illustration of boots, for example. The ordinary distributor in pre-War days could order a reasonable stock of boots in a variety of sizes of a uniform character. To-day he dare not do that kind of thing; there are so many colours that must tone with the frock or with the hosiery, as the case may be. He is more dependent upon the manufacturer keeping the stock. To-day in practice far less stock is kept by the distributor; he asks the customer to wait and the stock comes round in the course of a few days. At the same time the expense of keeping up a wholesale establishment goes on as it did in pre-War days and the burden falls roughly upon the wholesaler; the retailer is left in a much better position than he previously was.—I have not covered very much of the ground that I had intended, because we were hung up in connection with the banks, and this distribution question.

4138. *Chairman*: The topics are so fascinating, it is very difficult to refrain from discussing them with you?—The questionnaire goes on to ask what the witness thinks of the facilities for credit now existing. I think the existing machine is absolutely adequate in its contacts—more than adequate. It goes against one's rationalisation soul to see five marble palaces in quite a small market town, all prepared to do what one could quite well do for the whole lot; so I do not think you can say the contacts are inadequate; but I am not quite sure that the new psychology that has arisen through them is as good as the old psychology. The whole tendency has been to move away from the personal credit, the personal character and integrity, and the local knowledge of an independent judge in the form of a well-paid bank manager, towards that kind of secured credit which can be represented on forms and returns, and judged by somebody at head office, passed through that kind of clerical mill, in order to ascertain whether they are good or not; that is to say, central inspection by a big organisation; reducing, of course, the responsibility of the local manager very considerably, and making it much more difficult for new and small people to get that kind of finance that was possible in the older—I will not say the better—days. I am not sure that in many industries it is a thing to be encouraged, that any small man, on the basis of character, can set up a factory. That is the tendency we are trying to correct. On the other hand, nearly all new industries feeling the public pulse have to be started, if they are to be successful, with personal drive and belief in the enterprise. In the main the whole trend of public finance is towards the large-scale concern which is big enough to have debentures and preference shares on a quotable scale in a market where the price can be seen, where a man can get out of them, or make a turn on them. After some study of the conditions in different parts of England, I think my answer to the questionnaire would be that the facilities are adequate, but the adequacy has been to some extent offset by the new psychology that has come about through it.

4139. *Mr. Tulloch*: Do you not think that the competition of the managers of the five palaces in the market town tends to ensure that the ordinary applicant can get what he wants? I put it in the form of a question, but there is, in fact, such competition that anybody with any character or reasonable ground for making application has very little chance of being refused in one way or the other?—I agree that is an improvement on the old-fashioned mentality, whereby if the bank manager did not like the colour of a man's hair, or the length of his nose, the man would not get very far with him. There is always the chance that one of the five will take him on now. Although there is the appearance of very free competition, all the same there is a current understanding beneath which business will not be done.

4140. *Mr. McKenna*: I should like to ask whether your attention has been called to the practice, at any rate of one bank, that any application to a manager for an advance must not be refused without reporting it to Head Office, and that, although sanction may be given up to various amounts according to the status of the officer, nobody may refuse an application without its going to the highest authority?—Yes; I was not thinking that there would be a refusal, or where the initiative for refusal would come from, but that there might be, compared with the old days, a cramping effect, by its having to pass certain criteria of a more objective character when it gets to Head Office than would have been necessary in the old bank parlour.

4141. I can only say with regard to that, from my personal experience, those old criteria would not be exclusive. I do not know what the practice would be in all banks; certainly in one bank I know no refusal is given without going to the highest authority?—Whether the highest authority exercises its final approval or refusal upon the nose of the local official or upon objective criteria I cannot say, but if the final result is upon the basis of secured credits, and that kind of thing, to a greater extent than it used to be, then my argument holds, even though the responsibility is shifted from the local manager to the head office.

4142. I should say it depends on the balance sheet?—I call that an objective test.

4143. What the experience of the man's business has been, what his guarantee is. In many cases a balance sheet is greatly preferable to so-called securities?—I agree.

4144. *Chairman*: A balance sheet is impersonal?—Yes; it is slightly relative too. When I was a Revenue Officer a balance sheet would be brought in to me and I would be told that it was putting the best face on things because it had been originally prepared for the bank. The bank manager has told me that he would have a balance sheet brought in to him and he would be told, " That is bedrock, I am much better than that, because it was prepared for the Revenue." So there is a certain relativity even about a balance sheet.

4145. You have given us a good deal of food for reflection. I understand you are going to supply us with a reasoned paper on some of the more technical aspects of our problem?—I will try. I will not put in to the Committee merely for the sake of putting it a memorandum on a subject on which I am not satisfied.

4146. Quite! If you feel disposed to do so we should welcome such a contribution. Then later on we may ask you to come back, and put to you some more particular aspects of the problems that present themselves to our mind?—If that is the wish of the Committee I will come. Meanwhile, I hope to be discharged with a caution.

4147. We will put you on probation.—Thank you!

Chairman: Meantime, we thank you very much indeed for your contribution.

(*The witness withdrew.*)

Mr. R. G. HAWTREY, called and examined.

STATEMENT OF EVIDENCE SUBMITTED BY MR. HAWTREY.

FUTURE MONETARY POLICY.

1. The greatest service that the credit system can render to industry is to maintain the value of the currency unit stable. It is not easy to define with exactitude the meaning of " stable " in this connexion, but in the course of theoretical analysis the term will assume sufficient precision.

2. The advantages of a stable currency unit are, in a sense, *negative*. It avoids the evils of instability. Those evils may be summarised as follows:—

(*a*) Injustice between debtor and creditor;

(*b*) Disturbance of the due relation between prices and wages, and between prices and fixed costs;

(*c*) Fluctuations in business activity.

I omit fluctuations in the foreign exchanges, because they are prevented by the general use of the gold standard.

3. Injustice between debtor and creditor is of importance chiefly in relation to long term contracts, such as those embodied in investments yielding a fixed rate of interest. Any substantial change in the wealth value of the unit in which such contracts are expressed defeats the intentions of the parties and is unjust to one or the other. But I would not lay great stress on this part of the subject, partly because those who suffer the injustice are usually quite unaware of it, and partly because the Committee is more directly concerned with trade, industry and employment than with questions of equity.

4. The disturbance of the relation between prices and wages and between prices and fixed costs, on the other hand, is a matter very directly concerning trade and industry.

(*a*) If wages be supposed in proper equilibrium with prices and profits, and if the price level changes, a corresponding change in wages is called for. That change is likely to be made only after considerable delay, and at the cost of friction, taking the form possibly of bitter labour disputes. So long as wages are out of trim, the workpeople suffer; either their real standard of living is depressed if a rise of wages is delayed, or they suffer unemployment if a fall of wages is delayed.

(*b*) So far as fixed costs are concerned no injury is done to industry when the currency unit depreciates; the only trouble in that case is the injustice to the creditor, which has already been referred to. But when the unit appreciates, the burden of debentures, mortgages or bank loans is increased, and traders may be embarrassed or even ruined.

(*c*) A form of fixed charge which requires separate mention is the national debt. Overtaxation is a serious evil, and, where the obligations of the State are so heavy as to involve over-taxation, the evil is intensified by an increase in the wealth value of the currency unit. This effect is felt in the form of a diminished yield of existing taxes in face of nominally unchanged liabilities.

5. Fluctuations in business activity are the most serious of all the injurious consequences of monetary instability. For here is to be found the unemployment problem. The intimate association of trade depression and unemployment with a falling price level is nowadays well recognised. But for the purposes of theoretical exposition it is desirable to look beyond the price level and to consider the volume of demand, in terms of money units, for products of all kinds.

6. The demand for products of all kinds depends upon what the purchasers of the final products spend out of income. This we may call the " consumers' outlay," and the total of incomes out of which it comes we may call the " consumers' income." The consumers' outlay excludes what traders spend on things that they buy or produce for sale. Such expenditure does, no doubt, appear as demand for the things the traders buy, but that is an intermediate or derived demand, closely dependent upon the prospects of sale of the final product.

7. The consumers' outlay, being composed of all expenditure out of income, must include *investment* of sums saved out of income. But it does not include the *reinvestment* of the proceeds of sale or of repayment of previous investments.

8. Sums invested, however, are not for the most part spent directly on *goods*. They are spent on the acquisition of pecuniary rights (stocks, shares, etc.) from dealers in the investment market. The investment market acts as an intermediary between the investors on the one hand and promoters of capital enterprises on the other. The dealers receive money in exchange for securities from the investors and pay money in exchange for securities to the promoters. They tend so to regulate their dealings as to avoid any considerable change in their holdings of securities, and so long as they succeed in this purpose, the money received from investors and that paid to promoters will be equal to one another, and the investment market will in effect be acting merely as a channel through which the investors' savings are expended upon the production of capital goods.

9. It is clear that there is an intimate relation between the consumers' outlay and the price level. In fact the consumers' outlay may be regarded as the product of the price level and the quantity of things purchased. The things purchased in the community cannot differ from the things produced, except in so far as there is a change in the stocks of goods or securities held by traders.

10. Suppose there is, for any reason, a reduction in the consumers' outlay. In the first instance that will mean a curtailment of purchases at existing prices. Sales will fall short of output, and traders will find their stocks accumulating. They will seek to stimulate sales by reducing prices. If this were the only adjustment to be made, equilibrium would be restored by a reduction of the price level in the same proportion as the consumers' outlay, so that sales and output would once again be equal.

11. But the reality is more complicated. The reduction of prices to the consumer is not the only, or even the first act of the dealers in commodities. In the first instance they have no means of knowing what has caused the decline in demand, or whether a reduction of prices is really called for. They will leave prices unchanged and cut down the orders they give to producers for the replenishment of their stocks. There results a diminution of output, and therefore a diminution of the incomes of producers. There is thus a decline in the consumers' income which will take effect in a *further* decline of the consumers' outlay; and the same sequence of events will tend to be repeated indefinitely with cumulative effect.

12. The fall of prices, as it occurs, relieves the situation. The reduction of prices to the consumer stimulates sales. At the same time producers who are under-employed take orders at reduced prices, and enable the dealers to replenish their stocks without loss. The process of adjustment will not be complete till wages are reduced in proportion to prices, and pending that stage there is likely to be unemployment.

13. This analysis shows that the immediate cause of the under-employment of industry is not the falling price level, but the contraction of demand itself. The falling price level is a motive, because the trader who *expects* prices to fall is deterred thereby from holding goods in stock, or buying them forward. There is a powerful reinforcement of the tendency to depression. But the expectation of a fall of prices can only be based on the state of the market, and the principal ground for it is the shrinkage of demand. Changes in the price level are in one sense fundamental in monetary theory, for they are the inverse of changes in the wealth value or purchasing power of the currency unit. But in the analysis with which we are now concerned changes in the price level are merely symptomatic.

14. Up to this point we have said nothing as to the *cause* of the contraction of the consumers' outlay. If we followed the modes of thought of the economists of a century ago, we should express this in terms of the quantity theory of money. If credit be treated as of no more than subsidiary importance, we start from the conception of a stock of money composed of the cash balances held by the members of the community. If the consumer's outlay decreases, that must mean either that the stock of money decreases or that people are keeping larger cash balances in proportion to income and outlay. The latter phenomenon is decribed as a diminution of velocity of circulation. Similarly the consumers' outlay can only increase if either the stock of money increases or the velocity of circulation increases.

15. But in view of the predominance of bank credit under present day conditions, a somewhat different analysis is preferable. The means of payment (bank credit and money) no longer constitute a fixed stock. Bank credit is perpetually coming into existence and being extinguished. The supply of the means of payment can therefore be controlled if the creation and extinction of bank credit can be regulated. Credit is created when people borrow from banks, and extinguished when they repay. Regulation of credit is effected by encouraging or discouraging borrowers.

16. That is done by the Central Bank. The competitive banks determine their lending operations with reference to the supply of cash, and under present-day conditions cash means *obligations of the Central Bank*, whether notes available for active circulation or deposits available for the settlement of clearing liabilities.

17. If the Central Bank cuts short the supply of cash, the deficiency can only be made good by borrowing from it. It can make its own terms for lending, and can thus dictate the credit policy of the other banks. It can compel them to restrict credit, or induce them to expand credit, as it chooses.

18. When the banks expand credit, or accelerate their lending, the additional sums lent are quickly paid away by the borrowers. They are paid in exchange for commodities in the form of the incomes (whether wages or profits, interest or rent) of those engaged in the production of the commodities. The additional sums lent thus become additional income, and the additional income becomes additional outlay (except in so far as a portion may be retained in balances). The additional outlay is additional demand, and tends to evoke additional production. Thus, once an expansion of credit is started, the effect is cumulative.

19. The same is true of a contraction. If borrowing is successfully discouraged, the volume of orders given to producers is curtailed. As soon as production slackens, the incomes of the producers fall off, demand shrinks and the slackening of production is reinforced.

20. The consumers' income and outlay tend therefore to be disproportionately sensitive to measures or credit contraction or expansion.

21. In using its power of regulating the consumers' income and outlay through credit control, a Central Bank, under present day conditions, is guided by the foreign exchanges. That is the foundation of the gold standard. The currency has to be kept at a fixed parity with gold and parity with gold means parity with other gold standard currencies. In fact the world market in gold is for all practical purposes the market in gold currencies.

22. The products of a country may be divided into two classes, first what may be called *foreign trade products*, being those which are importable or exportable and have an international price, and secondly *home trade products*, the price of which is free to respond to the state of supply and demand in the home market without reference to conditions outside. Incomes are derived from productive activity, and the consumers' income may be divided into the portions derived from the production of foreign trade products and of home trade products respectively.

23. The income derived from home trade products will be equal to the outlay on home trade products. There may be a momentary discrepancy between the two, when a difference between output and sales is reflected in a change of stocks, but this will be quickly corrected.

24. A difference between the income derived from foreign trade products and the outlay upon them may be more substantial, because the outlay can be met not merely from stocks but from imports. An excess of imports so caused will cause an unfavourable exchange and an outflow of gold. This state of things is remedied by the Central Bank by means of a contraction of credit, which reduces the consumers' income and outlay. The consumers' outlay as a whole being reduced, the outlay upon foreign trade products is reduced in due proportion.

25. For example suppose that the consumers' income is £100,000,000, that outlay upon home trade products and income derived from them balance at £60,000,000, and, in regard to foreign trade products, income and outlay balance at £40,000,000, and suppose that an expansion of credit occurs and the consumers' income is increased by 10 per cent. to £110,000,000. The expansion of credit may be regarded as creating a demand for commodities and therefore a source of income to the producers, other than from the consumers' outlay. The income so created goes to swell the consumers' outlay, and the outlay upon each class of product may be supposed (though this is not necessarily so) to be increased by the same percentage. The outlay on home trade products will become £66,000,000 and on foreign trade products £44,000,000.

26. But nothing has occurred to cause any considerable increase in the production of foreign trade products, which are governed in respect of both price and output by international markets. There may be some stimulus to output owing to the increased home demand for foreign trade products, but this is likely to be small. The main part of the additional outlay of £4,000,000 on foreign trade products will be felt in an excess of imports.

27. This excess of imports occurs because consumption of foreign trade products cannot be checked by a rise of prices, or, to put the same thing in another way, the gold standard ensures that the nominal increase in the consumers' income shall be a real increase in purchasing power in international markets.

28. Similar reasoning shows that if a contraction of credit decreases the consumers' income and outlay, an excess of exports will be caused.

29. An excess of imports and loss of gold can be corrected by a contraction of credit, and an excess of exports and inflow of gold by an expansion.

30. If credit expands abroad and the world price level rises, there will be an excess of exports and an inflow of gold unless the country expands credit in due proportion. In the same way, if credit contracts abroad and the world price level falls, it must contract credit to prevent an excess of imports and an outflow of gold.

31. The general principle is thus that under a gold standard the power of the Central Bank is used to impose on the country the same credit movements and the same changes of price level as occur in other gold standard countries. The fluctuations in the price level are therefore an international problem. To prevent them it is necessary to prevent fluctuations in the wealth value or purchasing power of gold in world markets.

32. The value of gold in terms of other forms of wealth is determined by supply and demand. But the predominant influence in the balance of supply and demand is the demand for *monetary* purposes. The annual output of gold from the mines is about £80,000,000, and the annual industrial demand (including absorption of gold in the East) is about half that amount. The monetary demand is exercised by the Central Banks and other currency authorities of the world, and has to absorb the balance of about £40,000,000 a year.

33. But that does not represent the full extent of the monetary demand. For the total accumulated stock of monetary gold (nearly all now held in Central Bank reserves) exceeds £2,000,000,000. The Central Banks may be regarded as keeping up the value of gold by keeping this huge stock (25 years' output) off the market.

34. Since the value of their currency units in gold is fixed, they do not regulate the value of gold by varying the price of it, but by varying the wealth value of the currency units themselves. An intensified demand for gold on the part of Central Banks tends to raise the wealth value of the currency units, and a relaxation of demand to lower it.

35. An intensified demand cannot mean an increased total holding of gold because the supply of gold is limited. (Such variations as occur in the industrial demand would not affect the total supply over a short period materially.) An intensified demand appears in the form of efforts by some Central Banks to increase their holdings, followed by efforts by the others to prevent their holdings from being drawn upon. In either case the instrument relied on is a monetary contraction or credit contraction, which brings about a shrinkage in the consumers' income and outlay. There ensues a general fall in price levels or, in other words, a rise in the wealth value of gold.

36. Likewise if some countries seek to get rid of a part of their gold, they will relax credit and increase consumers' income and outlay. Other countries on receiving the gold (unless they are willing to increase their gold holdings) will in turn relax credit. There will be a general expansion of consumers' income and outlay and a rise in price levels.

37. There are several ways in which these processes may be set on foot:

(1) An excess or shortage of gold production from the mines. The annual amount can only be a small percentage of the total monetary stock, and therefore the effect must be a gradual one, spread over a considerable period of years.

(2) Changes in the law or practice relating to gold reserves in particular countries (e.g., the absorption of gold by Germany in 1872-3, or by France in 1926-9, and the release of gold from circulation in Europe during the War).

(3) Disturbances of the relation between consumers' income and stock of gold within the limits imposed by the established law and practice.

38. The two former are self-explanatory, but the third is less obvious. Under pre-war conditions the trade cycle was invariably accompanied by a "credit cycle". A period of expanding credit and rising prices was marked by active business and full employment. Eventually, after several years of these conditions, a shortage of gold reserves was felt and steps were taken to contract credit. There followed a period, again of several years, of falling prices, trade depression and unemployment.

39. These alternations occurred because the general shortage of gold reserves (depending on the increased amount of money in circulation) was only felt at a long interval after the expansion of credit began, and a long interval also occurred before the contraction of credit so far reduced the money in circulation as to reconstitute the gold reserves. The Bank of England and other Central Banks were guided by a very tardy signal, and continued expanding credit for two or three years after they had passed a stage which in fact threatened a shortage of gold, and continued contracting credit long after the forces promising a surplus of gold had been successfully put in motion.

40. Whatever view may be taken of the underlying causes of the trade cycle, it is certain that this credit cycle was closely associated with it. All the great epidemics of unemployment in the two generations preceding 1914 coincided with the cyclical contractions of credit, and these contractions of credit were of themselves sufficient, according to monetary theory, to cause epidemics of unemployment.

41. In order to prevent these variations in the purchasing power of gold some kind of international action is clearly called for.

42. No country ought to make a change whether of law or of practice in its currency system, involving a large increase or decrease in its gold holding, without due regard to the effect of its action upon the value of gold and upon the interests of its neighbours. This, of course, applies especially to the larger countries. Four countries, England, France, America and Germany, hold £1,500,000,000 of monetary gold between them. Argentina, Spain and Japan hold nearly £300,000,000. The rest of the world holds about £400,000,000.

43. Suitable provision ought to be made for the expansion of currencies not in exact proportion to the supply of gold, but in such relation to the growth of business as to allow stability in the purchasing power of gold over long periods. That would require some degree of adaptability of currency systems to circumstances from time to time, and possibly amending legislation.

44. Most important of all, the regulation of credit should aim at avoiding price fluctuations of the cyclical type. It should not depend mechanically on the amount of gold reserves, but any tendency for the price level to rise or fall should be promptly countered by the appropriate restriction or relaxation of credit. This is a question of co-ordinating the day to day administration of credit by the Central Banks. That does not necessarily mean precisely concerted measures, or agreements to make reductions or advances of rediscount rates together. A common aim at stability of the price level and periodical consultation as to the interpretation of current business movements and statistical data would probably secure all that is required.

45. A plan for international co-operation was adopted at the Genoa Conference in 1922. The Conference recommended (Resolution 9 of the Financial Commission—Cmd. 1650) an international convention the purpose of which would be " to centralise and co-ordinate the demand for gold, and so to avoid those wide fluctuations in the purchasing power of gold which might otherwise result from the simultaneous and competitive efforts of a number of countries to secure metallic reserves. The Convention should embody some means of economising the use of gold by maintaining reserves in the form of foreign balances, such, for example, as the gold exchange standard or an international clearing system ".

46. Detailed proposals " to form the basis of the international convention " were set out in Resolution 11. The salient points are the following:—

> " (3) A participating country, in addition to any gold reserves held at home, may maintain in any other participating country reserves of approved assets in the form of bank balances, bills, short term securities or other suitable liquid resources.
>
> " (4) The ordinary practice of a participating country will be to buy and sell exchange on other participating countries within a prescribed fraction of parity in exchange for its own currency on demand.
>
> . . . . .
>
> " (6) Each country will be responsible for the necessary legislative and other measures required to maintain the international value of its currency at par, and will be left entirely free to devise and apply the means whether through regulation of credit by central banks or otherwise.
>
> " (7) Credit will be regulated, not only with a view to maintaining the currencies at par with one another, but also with a view to preventing undue fluctuations in the purchasing power of gold."

47. Resolution 12 recommended that the Bank of England be requested to call a meeting of central banks and banks regulating credit policy in the several countries " as soon as possible to consider the proposals adopted by the Conference and to make recommendations to their respective Governments for the adoption of an International Monetary Convention."

48. The intention was that international co operation on these lines should be initiated before the several countries had re-established the gold standard. In fact the opening paragraphs of Resolution 11 (which are not quoted above) deal with the steps to be taken by the Governments of the participating countries to get back to gold. As no action was taken under Resolution 12, the return to the gold standard has been effected by nearly all countries, in the years which have intervened, without any adequate co-ordination. The " simultaneous and competitive efforts of a number of countries to secure metallic reserves " have occurred, and the " wide fluctuations in the purchasing power of gold " have had disastrous consequences.

49. With regard to the future, it cannot now be assumed that the generous international spirit of the Genoa Conference can be revived. But we have reached a stage at which the most important countries may be regarded as having settled their gold policy for the time being. If that is so, an international agreement in regard to gold is not at present a matter of urgency.

50. But the question of preventing cyclical or short period fluctuations of purchasing power has become more pressing than ever. And in this respect I am inclined to suggest that no explicit international co-operation is really necessary at all. The position of London in the international credit system is so predominant that the Bank of England can take the lead and set the pace for all other countries. Undoubtedly if there were a general tendency among other countries at any time to pursue a policy contrary to that of the Bank of England, the Bank could not prevail against them. If they were all set upon contracting credit when it was expanding, it would lose gold on a great scale, and if they all were set upon expanding when it was contracting it would be flooded with gold. But if the Bank of England consistently pursued a policy of stabilising the purchasing power of the pound sterling, it would not encounter *active* opposition in any quarter.

51. To contract credit when the price level tends to rise and to expand credit when the price level tends to fall will be quite in accordance with the past practice to which foreign central banks have long been accustomed. The only innovation called for is that the appropriate action should be taken earlier than in pre-War days. The Bank of England always used to take the lead, and if it moves earlier than formerly, there is no reason why foreign central banks should not acquiesce. Only the Bank of England must be ready to accept some accumulation of gold at a time when it is contracting credit and to face some loss of gold when it is expanding credit.

For this reversal of pre-war practice the Currency and Bank Notes Act, 1928, makes provision. If gold is coming in at a time when a tendency towards an undue expansion of credit in the world calls for restrictive measures, room can be made for it in the Issue Department of the Bank by reducing the fiduciary issue, and the Banking Department will be left free to function normally. In the same way if an undue contraction of credit calls for measures of relaxation when gold is flowing out, it is possible to release gold by increasing the fiduciary issue.

52. To these processes there are of course limits; on the one side the amount of the fiduciary issue, and on the other the amount of the gold reserve. But provided foreign countries do not actively oppose the Bank of England, these limits ought to be found quite wide enough.

53. The particular case of the United States requires separate consideration, both because the economic resources of the country are so large a proportion of those of the whole world, and also because it contains 40 per cent. of the entire monetary supply of gold. But for some years past the American Federal Reserve Banks have been following a policy approximating very closely to the desired stabilisation of purchasing power. If they and the Bank of England are aiming independently at the same end, neither will cause difficulty to the other.

54. Moreover the American banking system is primarily concerned with American business. It has not as great an international influence as the British. International trade all over the world is more or less sensitive to the British Bank Rate. The short-term lending of the American banks outside their own country is mainly concerned with the financing of American imports and exports, and imports and exports form a far smaller proportion of American economic activity than of ours.

55. A complication is introduced into the regulation of world credit conditions by the tendency of floating balances to seek temporary investment in any centre where short-term interest rates happen to be high. Difficulty arises when it is desired to contract credit in one country *relatively* to another. If Bank Rate is higher in the former, the inflow of balances will tend to make Bank Rate ineffective, and will also, by making the balance of payments temporarily more favourable, obscure the necessity for a credit contraction. When an inflow of balances occurs, the high Bank Rate appears to have achieved its purpose of making the foreign exchanges favourable, whereas the underlying situation may be little improved.

56. But this is really a difficulty in working the gold standard at all. The movement of balances for temporary investment would actually facilitate the task of the Bank of England in taking the lead in the world credit market, for it would tend to make other centres adopt as nearly as possible the same Bank Rate as London. Only in the special case (already referred to) where foreign centres were following in concert a different credit policy from London would it increase the difficulties.

57. Throughout the foregoing it has been assumed that the policy of stabilising the wealth value of gold, or "avoiding undue fluctuations in the purchasing power of gold," has a definite meaning which would command general assent. But the matter is not free from difficulty. It is customary to measure the price level by index numbers, the purchasing power of the currency unit being measured by the reciprocal of the index number. But an index number is by no means a perfect measure, in that it may be affected by the scarcity or plenty of some important commodities, or by substantial changes in cost of production of others, or by other non-monetary causes. So far as possible, allowance ought to be made for such disturbances. Otherwise a scanty cotton crop in America, by raising the prices of cotton and cotton goods in the index number, might lead the Bank of England to initiate a contraction of credit so as to depress the prices of other commodities.

58. The price level in any one country tends to diverge slightly from the world price level owing to variations in its balance of payments. If anything occurs to make its balance of payments more favourable (e.g., an import of capital, or an abundant harvest), its internal price level tends to rise relatively to the external and *vice versa*. Clearly the price level that ought to be stabilised is not the price level of any one country but the *world* price level, to which the external price levels of all countries approximate. The index number chosen ought therefore to be composed of commodities with world markets.

59. The Bank of England should not confine itself narrowly to the guidance afforded by movements of the price level. Movements of the price level are only symptoms of underlying movements of the consumers' income and outlay. And other symptoms should be taken into account, particularly the state of employment. An unemployment percentage above normal itself affords a strong presumption in favour of relaxation of credit, unless it can be traced to some definitely local or limited cause. Abnormal activity in business may give warning that credit restriction is needed before there is any visible effect on the price level.

60. To sum up, I suggest that the Bank should so use its power of regulating credit as always to endeavour to counteract any tendency of the world price level to rise or fall, and that it should not allow even large fluctuations in its gold holding to deflect it from this paramount object. In pursuing this policy it should rely partly on the predominant influence of London over international credit and partly on the fact that the stabilisation of the wealth value of gold is greatly in the interest of every gold using country, so that there will be no good ground for other countries to oppose it.

61. I would add that the Bank should itself resort to the device recommended in the Genoa Resolutions, the holding of a reserve of foreign exchange in place of gold, whenever the world situation requires an economy of gold. If that situation arose, and were prolonged beyond the period allowed for an extension of the fiduciary issue under the Act of 1928, legislation expressly recognising it might be desirable.

62. The Bank of England should also use its great moral influence with other central banks to secure not merely their neutrality but their active co-operation in maintaining the stability of gold. And it is to be hoped that presently some definite international agreement with regard to the distribution of the available stock of monetary gold will be arrived at.

4148. *Chairman*: We have a spare hour at the end of the afternoon as Sir Josiah Stamp had to leave earlier than we anticipated. We are much obliged to you for coming this afternoon. Just for the purpose of record, Mr. Hawtrey—you are an Assistant Secretary in the Treasury and Director of Financial Inquiries?—Yes.

4149. We shall note, of course, that you appear before us to-day in your personal capacity as an economist and an author of works dealing with monetary questions. You wish it to be noted that your evidence is given purely in that capacity?—Yes.

4150. And not in any way in your official capacity. You have furnished us with a statement of evidence. Are we to take it that that statement contains all the evidence you wish to give us?—Well, it was not intended to be exclusive; it was intended to give the main practical proposals and the theoretical grounds on which I made them, but I should be quite prepared to answer questions on any other topics which I am in a position to answer.

4151. I think this afternoon it might be useful, before coming to close quarters with your reasoned statement, if you would discuss one or two general topics. I should like very much to know what has been the approach of your mind to the problems on which we are engaged. We conceive ourselves to have been appointed to investigate monetary problems, problems of finance, in consequence of the state of industry and the state of unemployment which has arisen, which is altogether exceptional. That phenomenon has obviously engaged the attention of economists in very special degree. I should like to know your mental process if I might; it might help us to know how you have approached the problem?—I was interested in proposals of this kind and in the questions raised before the present exceptional unemployment began; in fact, I was advocating the stabilisation of the purchasing power of gold in 1919, at the time when the post-War boom was in full swing and when there was no question of unemployment. I already had a theoretical interest in the subject, and I was chiefly interested in it then from the standpoint of the trade cycle, pre-War experience of the trade cycle.

4152. May I just interpose for one moment? In the past, of course, there have been ups and downs in our industry, but on this occasion do you think we are in the region of something that is not merely the ordinary fluctuation, but something which is quite different in kind as well as in degree?—I do not think it is different in kind; I think that the causes are similar, but they have been intensified.

4153. *Mr. Bevin*: How?—Before the War there was a regular recurrence in the business cycle of dear and cheap money. The main feature of the business cycle was a fluctuation in productive activity and in the price level, the productive activity and the price level both reaching a maximum at about the same time and reaching a minimum at about the same time. Those phenomena were accompanied before the War by a rise in rates of short-term interest, as the price level rose and as productive activity increased, and the climax was invariably accompanied by a spell of dear money. That was followed, I think, nearly always by a fairly rapid lowering of short-term interest rates and they remained low during the ensuing period of depression.

On the present occasion, if we may go back to the post-War activity, the spasm of dear money came in 1920 and 1921, and there followed the falling off of productive activity and the falling of the price level as in pre-War conditions, and by the middle of, say, 1924, you had had the usual spell of low discount rates for a very considerable period, about two years, and the number of unemployed had been reduced from 2,000,000 in January, 1922, to about 1,000,000. The change as compared with pre-War conditions is in this respect, that from that time onwards the policy of cheap money has been abandoned. The remedy that used to operate under pre-War conditions, which brought about an improvement in employment, a gradual recovery of the price level, has been cut short, and for the past five years we have had no cheap money until the last few weeks.

4154. *Mr. Keynes*: Why was it abandoned?—Well, I do not pretend to know the motives of the Bank of England. What actually happened was that in July, 1924, the Bank Rate that was then 4 per cent. was made effective; that is to say, that the open market discount rate which had till then been little, if at all, above 3 per cent., was forced up by the appropriate restriction of credit to 3⅝ or 3¾ per cent., and then later on, in February, or, rather, the beginning of March, 1925, Bank Rate was put up to 5 per cent., and presumably that was all intended to prepare the way for the return to the gold standard.

4155. Was that necessary?—No, I do not think it was. The position at the time was that the American price level was steadily rising, the index rose from 144.6 in June, 1924, to 161 in March, 1925; our own price index was approximately stationary, and that rise in the American price level was accompanied by an approximately equivalent improvement in the rate of exchange which rose from 4.32 in June, 1924, to somewhere about 4.78 or 4.79 in March, and I think it is quite possible that that process might have continued uninterrupted, that the American price level would have risen relatively to ours until we had reached par, without any strain at all.

The effect, I believe, of dear money in England was to lower the world price level in terms of gold. That, I think, is due to the position of London as an international centre, as a short-term creditor, and the centre from which a great part of the international trade of the world is financed. The other money rates at the time were low. The New York rate was raised from 3 per cent. to 3½ per cent. in February, 1925; it remained at either 3½ per cent. or 4 per cent. for a period of years after that. There were no other discount markets which were a factor in the world credit situation, except—on a minor scale—Amsterdam and the Swiss banking system. They also had cheap money throughout this period.

The dear money policy was confined to this country, and I believe that this country then, as in pre-War times, had a decisive effect upon the world price level, or, in other words, upon the world value of gold, that the effect of our 5 per cent. Bank Rate has been to raise the world value of gold, and to make the effort required to put sterling at par and keep it at par much greater than it would otherwise have been.

4156. *Chairman*: That is one of the exceptional causes that has been at work, in your view?—Yes, I should say, so far as unemployment is concerned, it is *the* exceptional cause.

4157. I am very anxious not to break the thread of your thought; at the same time, would you like us to ask questions as you go along?—Certainly.

4158. Take the pre-War position. You speak of the trade cycle ups and downs that occurred. What were those fluctuations due to? Why was not the level more or less constant?—Of course, that is a subject of illimitable controversy. My own view is that the credit movements that everybody agrees are a feature of the trade cycle are themselves sufficient explanation of it. It is quite well recognised by everybody, whatever view they take of the trade cycle, that expanding credit and rising prices are themselves a cause of productive activity, that contracting credit and falling prices are themselves a cause of depression. The only point at issue is whether there are some other causes at work tending to bring about these credit movements, which are the root causes of the trade cycle.

4159. Is the monetary cause the sole cause of the trade cycle?—That is my view. My view is that if you assume the gold standard to be worked in the way that it was before the War, it was bound to lead to the trade cycle in more or less the form that we know it.

There are two principal reasons. In the first place, a fluctuating movement was bound to start owing to the essential instability of a credit system. By instability what I mean is this, that, when a movement either of credit expansion or of credit contraction begins, it sets on foot various causes which tend to intensify the movement in itself; so you cannot expect a credit system to remain in equilibrium, for any disturbance will start it moving away from this equilibrium, and it will go on moving, either the expansion or the contraction of credit, as the case may be, will go on gathering momentum until some active step is taken to stop it. That is one reason, that the credit system could not remain in stable equilibrium.

Secondly, the causes which ultimately correct an expansion or contraction of credit are very tardy in their operation. It is easy to misunderstand this point. If you take one country among a gold standard group and suppose that that country starts expanding credit, the effect of credit expansion is to raise the price level, to lower the value of the currency of that country, and it will lose gold, and there will be a rapid corrective through the loss of gold. But if you take the entire gold using world, the loss of gold by one country is the gain of gold by others. The movement of gold from country to country does no more than ensure that credit contraction keeps pace or that the credit expansion keeps pace. It does nothing in itself to correct the expansion or contraction. The only way in which under pre-War conditions credit expansion could be ultimately checked was through a scarcity of gold in the Central Banks. That scarcity of gold was caused by the drain of money into circulation. Under pre-War conditions that partly meant the drain of gold coin into circulation, partly it meant the drain of paper money into circulation, which had by law or custom to be covered by gold. It was only after this process of the increase of the active circulation of money had been at work long enough in the gold using world to cause a scarcity of gold reserves, that the brake was put on. When the brake was put on, it took time to effect a contraction of credit. It took time even to start it. When business is active, it has considerable momentum, and a period follows when dear money has very little effect in checking activity. That has been experienced since the War; for example, in 1920. There is a considerable interval before productive activity is checked at all. Then after that happens there follows again a prolonged period in which money has to be wrung out of active circulation. That is a slow process. Money in active circulation is mainly in the hands of the working classes, and it is only through prolonged distress that they can be compelled to give it up in any considerable quantities.

That is in outline the explanation I should give of the pre-War trade cycle. First of all, the instability of credit; secondly, the tardy effect of the signal, the scarcity of gold, that the banks relied upon to start action in the form of contraction of credit, and the tardy effect of the return of money from circulation in the contrary case.

4160. Have the ordinary commonplace causes like good harvests or bad harvests anything to do with it?—I think for an exporter of natural products they have a great deal. In the case of the United States, for example, you can put your finger on a number of years in which the state of trade in the United States was materially affected by the harvest. The year 1911 was one of revival of trade after the depression of 1908 in most of the world, but it happened that the American harvest was a bad one. That ranks in American books on the trade cycle as a year of bad trade. There are other cases I could name. The years 1902 and 1891 were both years when a good American harvest resulted in active trade in the United States concurrent with depression in most of the rest of the world; but so far as this country is concerned I do not think crop conditions have any appreciable effect at all.

4161. May they not have this indirect effect, that our customers abroad may be in a better position to take our goods if they have a good harvest than if they have a bad harvest?—No, I do not think even in that sense. You have several different cases to consider. There are cases where some of the exporters of natural products have a short harvest and the others have good harvests, and so on balance the production of those products is normal. In that case though some are relatively distressed and are bad customers, others are relatively prosperous and are good customers; on balance there is no change.

But you may also have the case where the whole world production is abnormal. If you had an abnormally large production of wheat, the probability is that that would cause a certain amount of loss to the wheat producing countries. I take it for granted that the demand for wheat in the world as a whole is so inelastic that exceptionally large production will mean a fall in the total value of the crop. Under those conditions all the wheat producing countries would tend to be less prosperous than usual. But for that very reason the other countries would all be more prosperous than usual; they would be getting the natural products that they need at a lower price, that is to say, they would be experiencing a favourable balance of payments, and a favourable balance of payments gives the opportunity for an expansion of credit and what you may broadly call good business.

So the general presumption is that if you eliminate monetary changes, assume that there is no monetary or credit change at work, all those variations in productivity would merely mean that the relative prosperity of different countries is altered, but there is no general depression or general activity as compared with normal conditions.

4162. Then is your diagnosis of the present distress that it is largely due to monetary causes?—I would say, so far as unemployment is concerned, it is exclusively due to monetary causes. Perhaps that is rather a paradoxical extreme to go to; I will explain the sense in which I mean it. What I mean by it is, that although there is a very large number of causes at work tending to affect the state of British industry, and in many cases very adversely indeed, there is no reason in the nature of things why those causes should give rise to extensive unemployment. They would tend, of course, to lower the standard of living in the country, but in the present state of rapid technical progress in the world I think the lowering of the standard of living would only have been relative, not absolute.

That is to say, if you can imagine a state of affairs in which ever since 1923 and 1924 we had had easy credit in the sense that they had it in the United States up to 1928, if you can imagine what would have happened under those conditions, we should no doubt have found that the cotton industry was suffering from Oriental competition, we should have found that the coal industry was suffering from the competition of other fuels and from devices for economising coal—all that no doubt would have happened—but I do not think there is any reason to suppose that those adverse causes would have involved an actual depression of the standard of living below what it was seven or eight years ago.

I believe that all the adverse factors taken together would have probably meant that our standard of living would have risen less quickly than that of some other countries.

4163. What is really implied in "the standard of living"? Do you mean the rate of wages?—Yes; real wages.

4164. *Mr. Keynes*: You told us that the dear money which preceded the return to the gold standard was perhaps not necessary. You have been saying that you think things would have been very much better if we had enjoyed cheap money in subsequent years?—Yes.

4165. Do you hold that dear money in that period from 1926 to 1929 was also unnecessary, avoidable?—That question really involves some consideration of the events of those years. I would say that there certainly have been periods when it would have been quite easy to escape from dear money.

4166. You mean that it might have been possible. One thing having been done, another thing followed from it; that having got ourselves into a fix we had to have dear money, but if we had studiously pursued a cheap money policy all the way through we should probably have been able to overcome our difficulties?—Yes, but I should think there has probably hardly been any time up to last year when we could not have escaped from dear money, provided we had been prepared to pay the price. The price at certain times would have been a very heavy loss of gold. It is, of course, quite impossible to say how great a loss of gold would have been involved. 1926 is an exceptional year about which it is rather difficult to reason. I should say that a substantial loss of gold would have been involved at any time up to the end of 1926.

4167. *Professor Gregory*: Would have been, or might have been?—Would have been; but not so great a loss as to have driven us off the gold standard. The actual effect depends very much on what would have happened to the gold after we had lost it. If the gold had been allowed to form the basis of credit expansion in the United States that would have eased the situation here. My opinion is that in the period up to the middle of 1927 the United States was inclined to expand credit and would have taken the opportunity of gold imports to do so.

4168. *Mr. McKenna*: Earlier you were attributing the prosperity or the depression to the quantity of credit. You are talking now of the price of credit?—Yes.

4169. Do you regard quantity and price as synonymous terms?—I wonder if I might postpone that question? It is touched on in my printed memorandum.

4170. You do draw a distinction between quantity and price?—Yes, if you bring me back to it in a moment, I will finish answering the previous question. With regard to the probable effect of imports of gold in 1925, 1926 or 1927, the position then was that the United States was clearly aiming at a credit expansion, that is to say, they had cheap money all through that period, and in 1926 the Federal Reserve system was buying securities in the market with a view to expanding credit. Therefore, I think probably they would have been willing to expand credit if they had received additional gold. That view, I think, received confirmation from the fact that in 1927, when there was some relaxation of credit in Europe, and our Bank Rate came down from 5 per cent. to 4½ per cent., and the Bank of France was buying sterling and dollar bills on an enormous scale, the Americans did make still greater efforts to expand credit, efforts which were successful and efforts for which they have been repeatedly blamed on the ground that that expansion of credit was the cause of the stock market speculation.

That expansion of credit, in my view, gave us the opportunity of responding with an equivalent expansion. Instead of that, we imported gold. The American credit expansion raised the exchange very soon up to 4·88, 4·88½ or 4·88¾, and gold was sent on an enormous scale from the United States to Europe. A great deal of that gold went to France, but we got our share, and we used the opportunity not to expand credit here, but to increase our gold reserves from £150,000,000 to £173,000,000. I do not think there is any doubt that we could have expanded credit at that time without any serious loss of gold—perhaps without any loss of gold at all. By merely forgoing imports of gold that we received in 1927-28 we might have created a very large expansion of credit, and possibly it would have had all the remedial effects that credit expansion and cheap money used to have before the War.

4171. *Chairman*: Did you say that for cheap money we might have had to pay the price of a lowered standard of living? You said we might have had to suffer a diminished standard of living, did you not?—I did not mean to say that the cheap money would have caused a lowered standard of living. My point was, that if we had had cheap money and normal progress we should still have suffered from certain adverse causes impairing the power of British industry to compete and so on, and that those causes would have involved a relatively lower standard of living; not that the cheap money would have lowered the standard of living.

4172. Would the cheap money have been an alleviation?—Yes, I think that the cheap money would have been a great alleviation. It presumably would have involved a higher price level, and a higher price level by itself would involve a lowered standard of living, but my own belief is that that higher price level would probably have been compensated by advances in wages. Of course, this is pure hypothesis, but I believe that under the conditions assumed a rise in money wages above the level of, say, 1923 or 1924, would probably have been possible.

4173. *Mr. Lubbock*: How would that have affected our export industries?—I am supposing that we had had cheap money in England, that the cheap money in England had its international effect, that the price level here and the price level elsewhere would have been in equilibrium; we should have had no disadvantage.

4174. *Professor Gregory*: I wish you would explain rather more fully what I have always felt to be the difficulty of accepting your theory, how precisely cheap money in this country has an influence out of proportion to cheap money in New York and the rest of the world?—Cheap money in London means a low rate of sterling bills. Sterling bills are the means of financing international trade. The point about London's position as an international centre is that a bill on London does not only finance import trade into England, it finances import trade into other countries; sometimes the goods are exported from England or the British Empire, sometimes the goods are exported from elsewhere. The effect of cheap money in stimulating trade is felt in the form of encouragement to the merchant who borrows to hold larger stocks of goods on hand; he feels that it is a better time to order goods. That is felt in the form of increased orders and, therefore, increased activity to all the producers who are sending goods to the countries whose trade is financed by the bill on London.

4175. I follow that perfectly, and I should accept your view perhaps to a very full extent if London were, and during the last 10 years had been, the only large financial centre; but, in fact, during the years in which you describe our Bank Rate as having been too high, New York was very actively financing international trade?—New York does not finance very much international trade outside that in which the United States itself participates. You differ on the question of fact?

4176. I do not differ on the question of fact if the question of fact relates to what is happening and has been happening in the last 12 months. I do differ very much on the question of fact if you refer to the years 1926, 1927 and the early part of 1928?—It is very difficult to test, but as to the mere volume of bills, the total of dollar acceptances, I think, in the period referred to was somewhere in the neighbourhood of one thousand million dollars. I think there is strong evidence to the effect that the total of London acceptances has been considerably greater than that.

4177. Yes, but would you not be inclined to say —I put this argumentatively because I agree that it is a disputable point—that in 1927 particularly, or 1926, the real influence of New York was not only felt in the financing of current international trade in the shape of raw materials and so on, but in the taking up of immense quantities of bonds for Germany and other European countries at a time when we were more or less restricting our capital exports, and that that did, in fact, involve very considerable assistance to world trade? —The export of capital is something quite distinct from the operation of easy credit. I think that the American export of capital was bound to have been, while it continued, a source of activity in the capital importing countries. I do not think that it would necessarily be a ground of activity here, but I believe it is the case that the American exports of capital have not really varied very materially in the past few years; I think they tend to be round about five hundred million dollars a year—there may have been some seasons when they were rather greater; in one or two years they almost dried up altogether.

4178. In the last few years undoubtedly, but I am thinking of the effect on the international price level of American capital exports in the period immediately following the inauguration of the Dawes Plan; the American dollar bonds put at the disposal of Germany did have a very considerable influence, did they not, in raising the German price level?—Yes; I think the importation of capital into Germany, whether from the United States or anywhere else, has had a profound effect upon the state of trade in Germany, and you get clear evidence of that in the close association between the ups and downs of German trade, and German unemployment on the one hand, and the ups and downs of the German imports of capital on the other.

4179. Does it not follow that, in the absence of those capital exports which helped to raise German prices, German prosperity might have been directly affected by the high Bank Rate here?—No, I do not think Germany was very susceptible to influence through the credit conditions at that period. The intense scarcity of capital was an exceptional condition in Germany at that time, but, of course, when you once lay down the broad principle that the London discount market affects activity all over the world, if you examine the position of any one country you will immediately find a number of factors affecting industry in that particular country which are of greater immediate importance than the London discount rate. If you take the world as a whole you will find that the London discount rate acquires a very special importance.

4180. With the general principle I entirely agree. I am merely questioning the quantitative effect of variations in the London Bank Rate so long as New York does have a re-discount rate lower than our own—which happens to be the case for a fair proportion of the time to which you refer?—Had you said this in 1925 I might have been prepared to be persuaded by you. Under those conditions it would have been a theoretical test as to how the two discount markets in London and New York would work under post-War conditions, but it seems to me that the evidence of experience is decisive, that what actually happened was that for two years the Americans failed to make their cheap money policy effective, that from the beginning of 1925 down to the spring of 1927 the American index number of prices fell from 161 to 144 in spite of their cheap money policy. It is quite true that from then onwards their cheap money policy did prevail, that their price index did rise slightly, and what is an equally important symptom, their productive activity increased to a very high degree, but that was possible because there was a relative relaxation of credit in Europe. We started 1927 with a 4½ per cent. Bank Rate and the market rate was dropping below it. That was not cheap money, but it was a relaxation as compared with the conditions that had prevailed in 1926 or 1925.

4181. I do not want to argue the point any more. I merely wanted to get the facts as to how you thought cheap money influenced the situation?—I think it is a point of very great practical importance as to what is the power of London and New York over the world value of gold. I regard that experience as a very important piece of evidence, and insofar as the power of London has been impaired I think it has been very largely due to dear money, which has resulted in traders financing themselves by drawing bills on New York, Amsterdam or Switzerland in preference to London, because the discount rate has been cheaper.

4182. *Mr. Brand*: There is an interesting statement in the papers to-day by the Swedish Match Company, or rather Kreuger and Toll, which has been one of the biggest lenders of capital in the last year or so. Did you see that?—I am afraid I missed that.

4183. Their theory is that the cause of the large fall in prices is the failure of New York to lend to the world in the last year or so, plus the failure of France; that has brought about conditions of deflation in the borrowing countries which, as they say, include nearly the whole world?—If you refer to statistics of the American balance of payments you will find that they did not cease to lend in 1929.

4184. If you take South American countries I should think they were able to borrow in 1927-28 tens of millions of dollars and in 1929 nothing. (*Mr. Keynes*): There has been a reduction of balances held by foreigners in America. (*Mr. Brand*): I do not think that went to the borrowing countries.—The effect on the state of business in the rest of the world depends on the net amount of American capital available through all channels. If Americans buy, for instance, American securities from Europe, that is an export of capital, and the money they pay is available for capital requirements in Europe in exactly the same way as if a new issue had been floated on the New York market.

4185. *Mr. Brand*: Would you say that the purchase of European securities by America is larger than the purchase of American securities by Europe?—Nothing is known in detail about those transactions. The only way to get evidence of what is happening is by reference to the statistics of the balance of trade. You have statistics of the visible exports and imports and estimates of the invisible, and those really are the only statistics you have to go upon.

4186. *Mr. Keynes*: Coming back to the main argument, as I understand you, you regard the history of events from 1924 to 1930, and their effect on unemployment, as the tragedy of a series of avoidable errors in monetary policy?—Well, yes.

4187. And that is based on two assumptions. First of all, that the Bank of England could safely, from the point of view of not losing too much gold, have followed an easy money policy, or an easier money policy, through those years; and, secondly, on the assumption that if it had pursued an easier money policy that would have cured unemployment? —Yes.

4188. As regards the first, of course, you can only get a conclusive answer by trying?—Yes.

4189. And, therefore, it is an exceedingly difficult matter to argue after the event. As regards the other, do you consider that the level of money wages in this country was such that, in order to obtain full employment, the rise of prices in the outside world would have had to be quite substantial?—No, I do not think that the rise of prices would have had to be very great. I think that the relation between prices and wages has been profoundly altered since 1913. I base that opinion mainly on the American statistics. Wages in America are about 120 per cent. above the pre-War level, and prices are about 40 per cent. above, and the explanation, no doubt, is in the technical improvements in production, which have lowered real costs to a very great extent. I do not think the Americans have any monopoly of those technical improvements. No doubt they have been carried much further in America than in other countries, especially much further than here, but I think it is reasonable to suppose that that enormous disparity between the percentage increase of prices and wages in America would have its counterpart on a smaller scale here. Wages here are 70 per cent. to 75 per cent. above the pre-War level. Though, I daresay, they could not go up to 120 per cent. with the present price level, I do not see any reason to suppose that they could not have remained at 70 per cent. to 75 per cent. with the price level that prevailed five years ago.

4190. If one agrees that the Bank of England might have pursued an easier monetary policy, and, still further, that in that event prices would have risen more in the outside world, and finally that in that case we should have had a rather larger export trade than we have, the conclusion that quantitatively those things would have been sufficient to prevent unemployment, is simply a matter of practical judgment?—Yes, I think it is, but I should correct that statement. You speak of a rise of prices. I only suggested it was necessary to maintain prices. Possibly a slight rise might have been expected.

4191. *Mr. McKenna*: What was mainly necessary was to stop the fall?—Yes.

4192. *Mr. Keynes*: It is an expression of opinion on your part. The argument to me is rather this. One wants a man to weigh 12 stone to be healthy. He, in fact, weighs 10 stone; you say if he ate another biscuit every day he would weigh 12 stone But all you have proved is that the tendency of the biscuit would be to increase his weight?—I think you have statistical data which carry you further than that. The American price level in March, 1925, was 161; the American price level now is 140. That disparity is of an order of magnitude fully equivalent to the percentage of unemployment here.

4193. I would agree that if the easier money policy of the Bank of England had caused a sufficient rise of prices in the outside world, and if we had not ourselves also, as the result of that easier money policy, had that rise of prices, many of your conclusions, if not all, would follow, but to assert that if the Bank of England had been brave it could have had sufficiently cheap money to prevent a fall of prices is, it seems to me, unwarranted?—I have given you ground for supposing that the order of magnitude of price change involved was sufficient. Let us suppose the decrease of prices which, according to my view, could have been avoided, is, say, 12 per cent., or whatever it works out at. If you could increase prices by 12 per cent. under existing conditions, that ought to wipe out all exceptional unemployment that we are suffering from.

4194. *Mr. Brand*: Without any changes in prices abroad?—No. I am satisfied if the credit policy of the Bank of England be interpreted as affecting the foreign price level to the extent necessary to prevent the fall of the price level from 161 to 140.

4195. *Mr. McKenna*: Would it not be sufficient for your case to say that if by credit action the fall in prices had been stopped, the tendency would have been towards good trade instead of depression?—Yes, but I would not be content with that because, as Mr. Keynes says, you may say that a biscuit a day will add to the weight of a man who is under weight——

4196. Is that sufficient?—No, I am not content with that. I am inclined to suppose it is more than a biscuit a day. In this case the disparity in price levels to be corrected is great enough to account for all the unemployment you suffer from. In 1922 and 1923 there were two countries which remedied unemployment by a price increase. The United States was suffering from unemployment on an unexampled scale at the end of 1921. The price level was raised from 138 in January, 1922, to 159 in March, 1923, and that increase of about 15 per cent. proved to be enough to wipe out all the exceptional unemployment and to create a scarcity of labour, and some sensational rises of wages in 1923. Almost exactly the same applies to Switzerland. Switzerland had 100,000 unemployed in 1922; Switzerland had a rise in price level of about 15 per cent., and escaped from that exceptional unemployment from that time onwards. So the kind of price movement we are discussing is of an order of magnitude to remedy unemployment on a very large scale.

4197. Might one go so far as to say that the whole of the unemployed to-day are employable at a profit at the current rate of wages? There may be a residuum of unemployed who could not be employed at a profit at the current rate of wages?—At the current price level?

4198. Yes.—It is very difficult to judge about that. That, of course, is an entirely different proposition from the one that I have just been supporting. I think that even if the existing price level were stabilised without any further decrease, it is probable that that would involve a very considerable improvement in employment; how great the improvement would be I should hesitate to say. When I speak about stabilising the price level, I am considering chiefly the price level of manufactured goods, and I do not think it would be possible to stabilise the price level of manufactured goods exactly as it is now. There is so much selling at a loss that some rise must inevitably take place as an incident of anything that you might call stabilisation under existing conditions.

4199. *Mr. Keynes*: Supposing in earlier years we had pursued an easier money policy, and that had led to loss of gold; if we had just let the gold go to America, that might have led to the boom on Wall Street coming at an earlier date than it actually came in 1929, and the Federal Reserve system would have taken steps to sterilise the gold?—That is building hypothesis on hypothesis. It took them a very long time to get worried about Wall Street speculation as it was.

4200. *Professor Gregory*: They started worrying about it in 1927?—It began even before that.

4201. *Mr. Brand*: Does your case involve the supposition that it is the Bank of England that determines the American price level?—That would be carrying it too far. I say that if there is active opposition between the two credit operations, the tendency is for the London policy to prevail owing to its effect on international trade. I would not go beyond that. (*Mr. Brand*): My opinion would be the contrary. It is only supposition on my part, but I should say the American market was more powerful and affected London.

4202. *Professor Gregory*: Would you be prepared, at least, to accept this: that a cheap money policy initiated in London will fail in its full effect unless regard is had to the international situation and the action of the Bank of England is accompanied by systematic action by the other Central Banks of the world?—I think the other Central Banks could counteract the action of the Bank of England. You will find that I have said that in so many words in my printed memorandum. If they do not actively take concerted measures I think there is a very strong presumption that the London policy will govern the situation.

4203. *Mr. Keynes*: If we had pursued an easier money policy, do you think that it would have increased the foreign issues on the London market?—Not appreciably, though I think there is always a danger when you start cheap money that the expansion of credit will take the form of advances to the stock market to carry investment securities.

(*The Witness withdrew.*)

Adjourned until to-morrow, 11th April, 1930, *at* 4.30 *p.m.*

TWENTY-THIRD DAY.

Friday, 11th April, 1930.

Present:

The Rt. Hon. LORD MACMILLAN, *Chairman.*

The Rt. Hon. LORD BRADBURY, G.C.B.
The Hon. R. H. BRAND, C.M.G.
Professor T. E. GREGORY, D.Sc.
Mr. J. M. KEYNES, C.B.
Mr. LENNOX B. LEE.
Mr. CECIL LUBBOCK.
The Rt. Hon. REGINALD McKENNA.
Mr. J. T. WALTON NEWBOLD.
Sir WALTER RAINE.
Mr. J. FRATER TAYLOR.
Mr. A. A. G. TULLOCH.

Sir FREDERICK LEITH-ROSS, K.C.M.G., C.B.
Mr. G. ISMAY, *Secretary.*

Mr. R. G. Hawtrey, re-called and further examined.

4204. *Chairman*: Mr. Hawtrey, there is one general and perhaps cardinal point that emerged from your evidence yesterday which struck me very forcibly. Is it your view that in recent times the Bank of England has been really what one may call lacking in courage in not expanding credit as it might have done and disregarding the out-flow of gold? I rather gathered from you that you thought the Bank might have regarded, if not with equanimity, at any rate with tolerance, a large outflow of gold because it would in the long run have rectified itself through other means, and the restriction of credit which took place was, shall we say, over timid?—I do not think I would accuse the Bank exactly of lacking in courage. Possibly it was rather farsightedness.

4205. Vision?—Yes.

4206. Economic vision?—Every course involved a certain amount of risk. It might have been perfectly right, on the view that the Bank took, to take various precautions which, as I suggested yesterday, were more than were necessary and had very unfortunate ultimate consequences.

4207. Suppose the Bank had taken the course of allowing gold to leave the country without restricting credit and that gold had gone out to a very considerable extent, would that not have had very serious consequences on the international position of London? After all, London must maintain its credit. You know what I mean?—I do not think that the credit of London depends upon any particular figure of gold holding, but the first thing I would say about that is that the Bank began to take its precautions before the gold standard had been restored. The harm began to be done in March and April of 1925. The fall in American prices started from March or April. There was no reason why the Bank should have taken any action at that time so far as the question of loss of gold is concerned. The Bank might have taken the view that if they did not put up Bank Rate at that time the situation would not be sufficiently favourable to restore the gold standard a few months later.

4208. It was preparatory to that?—Yes, but there was no immediate occasion from the point of view of the gold holding to take action at all at that time. They might have thought then that if they waited there would be a serious loss of gold on the restoration of the gold standard, and that they would then have to put on the screw harder. That was no doubt a perfectly defensible position to take at the time, but I have never thought that there was a real danger of that. I believed at the time and I still think that the right treatment would have been to restore the gold standard *de facto* before it was restored *de jure*. That is what all the other countries have done. If we had let the exchange situation adjust itself in the early months of 1925, I think it is very likely that we should have found ourselves in a situation in the course of the year in which the exchange was actually or practically at par.

4209. Just at that moment?—Yes, at that moment. I would have suggested that we should have adopted the practice of always selling gold to a sufficient extent to prevent the exchange depreciating. There would then have been no legal obligation to continue convertibility into gold; it might have lapsed without our being open to the imputation of having gone back upon a legal obligation. But I suggest that, if that course had been adopted, the Bank of England would never have been anxious about the gold holding, they would have been able to see it ebb away to quite a considerable extent with perfect equanimity, and might have continued with a 4 per cent. Bank Rate. I should have said even a lower Bank Rate would have been desirable but, at any rate, not exceeding 4 per cent. Of course, it is a matter of conjecture as to what would have happened to the world price situation at the time. I see no reason why world prices should have fallen from the level they reached in March, 1925. I think it is quite possible they would have continued rising, and so I think the return to the gold standard might have been carried through with perfect smoothness and without any strain on the industrial situation.

4210. But that not having taken place and the policy of the past few years having in fact been pursued, the course you suggest would not have been consistent with what one may call orthodox Central Banking, would it?—I do not know what orthodox Central Banking is.

4211. I do not know whether I know the gospel or not, but I understand that the principle recognised is that when gold ebbs you must restrict credit as a general principle?—I think that is a widely practised principle.

4212. That is what one may call the orthodox doctrine. Is not the orthodoxy of a Central Bank itself rather an important asset?—Well, no; I should say that that kind of orthodoxy is like conventions at bridge; you have to break them when the circumstances call for it. I think that a gold reserve exists to be used. It may be that you will go on for decade after decade and for generation after generation with a reserve of a certain amount, and the occasion for really using it may not arise. Perhaps once in a century the time comes when you can use your gold reserve for the governing purpose, provided you have the courage to use practically all of it. I think it is possible that the situation arose in the interval between the return to the gold standard, when the opportunity of taking the procedure I have just described had already passed, and the earlier part of 1927, when the credit situation began to ease. That was the period at which the greater part of the fall in the price level took place. The fall since has really not been very great, though it has been greatly hastened in the last few months. Then I think in the interval after that, from about April, 1927——

4213. *Mr. Keynes*: You are speaking of the international price level, not of the British price level.—The international price level. From about April, 1927, to the latter part of 1928, it would have been perfectly easy for the Bank Rate to be brought down to 3½ per cent. or 3 per cent. without any serious danger of loss of gold. That was the time at which the Americans were definitely attempting to establish cheap money and credit relaxation, and the time when we were absorbing gold. The Bank of England gold holding went up to £173,000,000 and there was no advantage in increasing it at all at that time. There was no reason why we should not have taken advantage of the high exchange, 4.88½ or more, to establish cheap money and start a revival of business. That period in turn came to an end in the latter part of 1928, and I think that last year it would have needed a great deal of courage indeed to start cheap money. Exactly what would have happened if we had, perhaps it is rather futile to conjecture, but if I might just pass to a rather different point that is connected with this,—last year the whole position of the Bank of England in the control of credit had been changed in this respect, that when Bank Rate was put up it ceased to have any appreciable effect on the internal price level.

4214. *Professor Gregory*: Are you now speaking of February or August?—February; and I daresay it was already true before that. It was not possible to make any appreciable reduction in the internal price level by a high Bank Rate because wages resisted it, profits had been cut down to the bone and, therefore, the ordinary operation of Bank Rate by which it reduces the internal price level in this country in comparison with the external price level and with the internal price levels of other countries, had broken down. The international power of the Bank Rate was fully operative, so that when we put up the Bank Rate from 4½ per cent. to 5½ per cent. and from 5½ per cent. to 6½ per cent. we were bringing down the international price level faster than our own. Instead of gaining we were losing.

4215. *Chairman*: We were not coming down simultaneously?—We were not coming down simultaneously. We were heading all through last year straight for the abandonment of the gold standard. The high Bank Rate in February and again in September gave us a few weeks' respite. When we were losing gold, by putting up Bank Rate we could for the moment start balances coming to London for temporary investment. That favoured the exchange for a short time, but when the balances had readjusted themselves and had finished coming, the favourable effect on the exchange was lost, and thereupon the old situation revived. In the summer of last year we were beginning to lose gold again, and the only thing to be done was to put up Bank Rate to 6½ per cent. If there had not been a change in the situation, that might have gone on indefinitely. We had got the gold reserve down to £130,000,000, and by the time we had had a short spell of 7½ per cent. Bank Rate it might have gone down to £110,000,000 and so on, and eventually we should have found that our machinery for protecting the gold standard would have broken down completely. I believe there was a real danger of that happening. So it was not a question of taking your courage in both hands last year; it was a choice of evils, whether to risk the gold standard by putting Bank Rate up or to risk the gold standard by putting Bank Rate down.

4216. Apart from this critical survey of the last few years and the Bank's policy during that period, what do you say as to the future? Here we are with a situation and we are asked to make recommendations. Put yourself in my position for the moment. What would be your recommendation as to future policy?—Are you speaking of the near future or the more distant future?

4217. I imagine that we shall have to make recommendations both as regards the immediate future and the more distant future.—As to the near future, I should say that the one hopeful factor is cheap money. The Bank Rate has come down to 3½ per cent. I suppose that is on the border line, and that you may call it cheap money so long as it is not effective. The open market rate of discount is 2½ per cent. or less for shorter bills. I suppose you may say we have got cheap money, and that has always operated in the past, as it ought to operate in theory, to produce a revival in the course of a year or two. The revival can be hastened if the Bank of England reinforces the cheap money policy by increasing its securities, with the effect of making Bank Rate still more ineffective, and bringing it down to 2 per cent., the pre-war standard of cheap money. The limit, of course, upon that, is that if you reduce Bank Rate and the open market rates of discount below a certain point, and if you flood the money market with cash in the form of extension of the securities held by the Bank of England, you will presumably get unfavourable exchanges in certain directions. That might put a limit to the process, but I would say that the Bank of England ought to carry the process of credit relaxation to its limit. The more it does in that direction the faster the revival of business will come. Particularly I would attach importance to the buying of securities, the increasing of bankers' balances and other deposits, and the setting in motion of that tendency that the joint stock banks have, to increase their lending when they have more cash on their hands than they need. That is what I should rely upon so far as the immediate future is concerned. Shall I proceed, Sir, to describe what I would say of the more distant future?

4218. I think you might.—For the more distant future I would say that the great need is the stabilisation of purchasing power of the pound. Of course, that is in a sense an international question. The ideal would be to persuade all the other principal countries that that is the aim, and that they ought to co-operate to attain it, so that, when there is a danger of credit contraction and falling prices, all of them would combine to reduce their short term interest rates, and when there is a danger of undue expansion of credit and a rise of prices, all should combine to contract credit.

But I do not think it is desirable to limit the action to be taken by this country to so much as can be done by any definite international agreement, and I think it is much better to trust to the special international position of London in world finance and world credit to attain a great part of that end by independent action on the part of the Bank of England. If the Bank of England itself diagnoses the situation from time to time and adopts the policy of contracting credit when it is necessary to prevent a rise of prices, and expanding credit when it is necessary to prevent a fall, I believe that its power over international markets is such that it could practically secure the stabilisation policy by its single action.

There might be obstacles to that; there might be definite opposition from foreign countries, particularly the United States, either one way or the other; the gold situation might cause difficulties, but with regard to the gold situation I think the present position is very favourable. There is no scarcity of gold in the present position. The Bank of England has a redundant supply of gold. It has a reserve in the Banking Department of £60,000,000 which is a great deal above the normal. The United States has an enormous surplus reserve of gold,. France has over £100,000,000 worth of gold in excess of the legal requirements, and on top of that has a holding of £200,000,000 worth of foreign exchange, the use of which would enable her if she chose never to part with any gold at all. Germany has an adequate supply of gold. Other countries do not make very serious demands on the world's gold supply. Of course, in addition to the £60,000,000 that is in the Bank of England there is gold on its way from Australia to a very considerable amount. In that position I do not think that the Bank of England need be afraid of a world scarcity of gold interfering with such measures of credit expansion as are necessary at the present time, or are likely to be necessary within the next year or two.

Nor do I think there is a danger of a redundancy of gold. If the gold policy of some foreign countries changed in the direction of getting rid of a great deal of their gold the Bank of England could very readily absorb a very large amount by using, with the concurrence of the Treasury, the power conferred by the Currency and Bank Notes Act of 1928 to reduce the fiduciary issue. So there are very wide limits within which the Bank of England can exercise freedom of action in controlling world credit, and can fortify itself against the dangers of either a large inflow or a large outflow of gold. I think it is perfectly practicable to do that.

There are many difficulties of detail in the policy of stabilisation. As to the actual process of contracting and expanding credit I do not think there can be said to be any serious difficulty. The same process is essential to maintain the gold standard, and it may be taken as generally accepted that it is possible for a country with a highly organised financial system to maintain the gold standard by the process of putting up Bank Rate and selling securities in one set of circumstances, putting down Bank Rate and buying securities in the other set of circumstances. It is practicable in that sense.

There are difficulties in regard to judging the price situation. Price movements are symptoms. The underlying effects of which they are symptoms are movements in what I find it convenient to call the consumers' income and outlay. The consumers' income is nothing more than what we commonly call the national income, and the consumers' outlay is what is spent therefrom, including what is spent on investment. The real aim of the stabilisation policy, as I view it, is not to stabilise the price level in itself, but to stabilise the consumers' income and outlay and even that, of course, does not mean exactly fixing the consumers' income and outlay. It means adapting them to growth, not only of population, but of capital, and growth in the skill and capacity for production of the individual. If you get a greater proportion of skilled labour it is quite right that the consumers' income should increase in proportion to that greater supply of skill. In all those respects I think it is right that the consumers' income and outlay should be allowed to expand.

Well, now, clearly it is quite impossible for any authority in control of credit to know exactly what is happening to the consumers' income and outlay, and it is still more impossible for him to know what ought to be happening to it. You can only judge by the available indications, and I think in practice the main guidance ought to be obtained from the price index numbers. I suggest that the credit policy should be based upon an international price index, an index composed of the quotations of all those staple commodities which have an international market, and in using that index I suggest that the Bank of England should invariably examine the details of which it is composed, and scrutinise each commodity or group of commodities in order to detect any change which is due to non-monetary causes. The simplest example of that is perhaps the case of the American cotton crop. There you get a commodity of first-class importance in the world markets, one which is bound to figure largely in an index number. As so much of the crop comes from a single country, the crop conditions in that country have an enormous effect upon the price. It is clearly an absurdity that the Bank of England should start contracting credit for the whole world merely because a short cotton crop has resulted in doubling the price of cotton and, of course, materially increasing the price of cotton goods, which will also appear in your index number. That kind of disturbance has got to be allowed for, and I do not pretend that that is anything but difficult.

On the other hand, there are other indications besides the price index itself which would help the Bank of England to arrive at a decision—particularly the state of employment. Unemployment above normal must—I hesitate to say, always, but almost always—be regarded as evidence that the consumers' income and outlay are below the amount that they should be at. Of course, you do get unemployment started by labour disputes and by the outbreak of War and that sort of thing, temporary and local causes: that has got to be allowed for just as the price of cotton has got to be allowed for. But, in general, when you get what may be called an epidemic of unemployment breaking out, that may be regarded as conclusive evidence that the consumers' income and outlay have been unduly reduced and, therefore, ought to be expanded.

It may be said, as an exception to that, that that situation might occur at a time when in one way or another the consumers' income and outlay have previously been unduly expanded, and that in that case the contraction is merely the necessary price to be paid for returning to normal. Now, that is the situation which used to occur with the pre-War trade cycle. It is a situation which ought to be avoided by the stabilization policy—of course, you have no guarantee that it will always be, but I do not think that it is necessary to anticipate all possible combinations of circumstances which may cause difficulty in the future, in applying these various tests. I would say that if the Bank of England were guided in its credit policy primarily by those two considerations, the price index with the necessary corrections, and the state of employment, then it would get as near an ideal credit policy as is practicable.

Chairman: We are very much obliged to you for that general statement. I think we might now pass to the specific topics which Mr. Keynes desires to discuss with you.

4219. *Mr. Keynes*: In the statement of evidence which you have submitted the first page and a half are directed to a theoretical analysis of how a depression arises. At the end of paragraph 12 you speak of unemployment and the reduction of wages as being the last two stages in the process you are describing. Is that right? You do not conceive the process as starting with unemployment or reduction of wages, but as ending at those stages?—Yes, I think that they both occur after an interval. But that particular sentence does not necessarily imply that they do not start being affected at once.

4220. Perhaps I might put my next question, and you will see what I am driving at. Your argument is that the trouble arises through the consumers' outlay becoming less than the consumers' income. As I understand you, in the first instance, if not subsequently, there is no reduction of the consumers' income; that is to say, we are in equilibrium, employment is normal, wages are what they are, and those two things between them govern income. Then the disturbance starts, as I understand you, by something occurring to cause the consumers' outlay to be less than the consumers' income, and the ultimate effect of that is to bring down the consumers' outlay?—Yes.

4221. But the mischief is started not by anything happening to the consumers' income, but by a falling off of the consumers' outlay. Is that right?—Yes.

4222. You say that you include in the consumers' outlay both what they spend on current consumption and also what they spend directly or indirectly on new investment?—Yes.

4223. And by "investment" you mean not merely the quantity of securities they may purchase in the market, but the amount of money which they put into the hands of people who spend it on actual new capital enterprises. I am referring to paragraph 8?—It is rather difficult to answer that question precisely. The actual facts are represented by this flow of money into the investment market and out again. The thing that affects the activity of trade is the ultimate expenditure on capital goods. That is the point at which the capital portion of the consumers' outlay begins to affect the consumers' income.

4224. But if a consumer has bought a security from someone else, and that is not a security which represents any additional capital activity, that would not, from your point of view, be in the net consumers' outlay?—No, it might result temporarily in the bank advances to the investment market being reduced. You may get money spent out of income on securities, the securities are bought from dealers in the investment market, and unless the selling of securities to investors at that end is counterbalanced by the equivalent buying of securities from the promoters of new issues at the other end, there will be a net reduction in the holding of securities by the investment market, and therefore in the indebtedness of the investment market to the banks.

4225. In that case, you would say, the consumers' outlay had failed to materialise; there had not been consumers' outlay to the extent that people had purchased the securities?—Yes; that is an illustration of the general principle that this discrepancy between the consumers' outlay and income arises through the creation or the extinction of credit. The creation of credit is the appearance of a demand for commodities, as it were, out of the fourth dimension; suddenly over and above the demand arising from the consumers' outlay something is created out of a new dimension, and the demand is proportionately greater.

4226. I wanted to be clear that I was interpreting your views aright?—I quite understand that. What I said was intended to be elucidatory of the position. The point at which something new comes into the picture is the point at which credit is either created or annihilated. Whether it is done by this purchasing of securities through the investment market or by the action of some industrialist who borrows less for his working capital, is a matter of detail.

4227. You might have an increase of credit in the ordinary sense of the word, and still it might not add to effective outlay; suppose I buy securities from a man and he puts the proceeds on deposit account with his bank and the bank does not increase its total assets?—That is a diminution of the total velocity of circulation.

4228. And you would regard that as an ineffective outlay; an outlay that does not materialise?—Yes, for that holding of balances idle tends to counteract credit expansion or to intensify credit contraction, as the case may be.

4229. If you define the savings of an individual as being the amount of his income minus what he spends on his own current consumption, and the savings of the community as the aggregate of individual savings, is it possible that the consumers' outlay should fall short of the consumers' income, unless investment in the sense in which we have just arrived at it is less than the amount of saving?—(*Chairman*): It seems to me a question of debit and credit account if you work it out. (*Mr. Keynes*): I do not know whether Mr. Hawtrey is puzzled as to the question or the answer.—I am a little afraid that you are using the term "investment" in a different sense from me.

4230. I mean by "investment" expenditure on new capital goods.—Including working capital?

4231. Including working capital—anything which adds to the accumulated wealth of the community.—That is not quite the same. You would include in working capital only a net change in working capital?

4232. Yes.—Well. I think I would answer your question in the negative, because I think there are probably other cases where you might have a creation of credit otherwise than by an addition to the wealth of the community. If you get a creation of credit or an extinction of credit you will immediately get a discrepancy between the consumers' income and outlay otherwise than for the purpose of investment. I do not think that is an important difference between your position and mine. Roughly speaking, as I understand it, what you call "investment" is what I should call "credit creation."

4233. No; certainly not. I mean by "investment" what I have said, an increment to the wealth of the community; that is to say, something produced which is not consumed.—I do not think that I should agree to your general proposition, that that is the only thing that can produce a discrepancy between the consumers' outlay and the consumers' income.

4234. What else does produce it?—If you get credit creation for any purpose there will be that discrepancy.

4235. But does not that come to the same thing, that if there is a change in credit which does not correspond to any alteration in investment then you will have a discrepancy; that will be simply owing to the fact that there is an excess of savings over investment?—I think that your question implies that all the things on which borrowed money is spent have a certain degree of permanence.

4236. I am leaving out, by agreement with you, what we may call the wash-out transactions.—I think probably for practical purposes, the proposition as you state it is very nearly the same as I should state it, yet I think there are formal differences. For example, if I make an overdraft through my bank in order to travel abroad—or to travel at home, say, to leave out the complication arising from the expenditure being abroad—if I make an overdraft through my bank in order to travel, there is no addition as a result of that expenditure to the assets of the community, but that piece of outlay comes out of nothing in exactly the same way as if I had used it to put up a building.

4237. Where a man spends on current consumption more than his income that is negative savings.—That puts a new complexion on the matter.

4238. I am defining "savings" as the excess of income over his expenditure.—I think it is possible that by a sufficient number of ingenious qualifications, you could make your position identical with mine.

4239. Why "ingenious qualifications"?—I think it is certainly ingenious, and it is certainly a qualification, and if you had put it in at the beginning I might have assented to it.

4240. I am defining "savings" as the excess of a man's income over his expenditure on consumption account. If his income is less than what he spends on consumption account his savings are negative. You are sufficient of a mathematician to appreciate that. Perhaps we could agree on this; supposing saving is in excess of investment, that would account for an excess of consumers' income over consumers' outlay and would lead to the series of troubles you are thinking of. All that you reserve is that there might be a possibility of other ways by which the consumers' income would exceed the consumers' outlay?—I think in substance that is true. I believe I am to have the privilege of seeing your book in proof presently, and I would like to think it over when I have seen it, but I think in substance I agree with your statement, though I am accustomed to use a different phraseology.

4241. *Professor Gregory*: In fact Mr. Keynes' questions are covered by paragraph **10**, are they not, from your point of view—I am thinking not only of paragraph **10**, but the general tenor of your memorandum—you would say that Mr. Keynes' case is merely a particular case of an increase in the consumers' income?—I think Mr. Keynes' formula covers two possibilities. It covers the possibility that the surplus savings are held up, with a consequent diminution of velocity, or alternatively that they are applied to repayment of indebtedness to the bank with a resulting reduction of the unspent margin, the total supply of bank credit. I think the formula covers both cases.

4242. *Mr. Keynes*: Yes. I should like Mr. Hawtrey to think over that—whether there is any way by which the consumers' income can exceed the consumers' outlay except by savings exceeding investment in the sense I have defined it. If that is so one has to consider in what sort of circumstances savings can exceed investment?—Or investment fall short of savings.

4243. Yes, or investment fall short of savings. I do not think I can usefully pursue that point further at the moment. I would like to turn to more practical issues which arise partly out of your evidence and partly out of your memorandum. You maintain, as I understand it, that when we returned to the gold standard we tried to restore equilibrium by trying to lower prices here, whereas we could have used our influence much more effectively by trying to raise prices elsewhere.—Yes.

4244. So that we should reach our goal. Clearly, if we were able to do that I should agree that is as good a way of restoring equilibrium as that which was unsuccessfully attempted. But I should like to follow the argument a little further. The reason why the method adopted has not been successful, as I understand you, is partly the intrinsic difficulty of lowering prices here when it means a reduction of wages?—Yes.

4245. And partly the fact that the effort to reduce them here causes a sympathetic movement abroad, so that even if we do bring prices down here a bit, we by the same method bring them down abroad?—Yes.

4246. So that we are no nearer equilibrium than we were before. Supposing we had tried the reverse process, and had had a low Bank Rate—I am assuming for the moment that we could have done that compatibly with the gold standard—you assume that a low Bank Rate would have raised prices elsewhere?—Yes.

4247. But it would also, presumably, have raised them here?—Yes. Of course, what I have been saying yesterday and to-day is aimed primarily at avoiding the fall of prices both here and abroad. I admit that it is possible that there might have been an actual rise of prices here as well as abroad.

4248. Granted that we have an influence on the world, one would have expected our Bank Rate to have more effect on our own price level than on the price level of the rest of the world?—Yes.

4249. So in that case easy money would have been less efficacious in restoring equilibrium than dear money, because easy money influencing our prices upwards more than foreign prices upward would have put us less in equilibrium, whereas the policy pursued had some tendency to bring us nearer to equilibrium?—I think it is possible if we had pursued the cheap money policy we would have failed to get back to equilibrium, but of course the export of gold itself would have tended to produce equilibrium. It depends very much at what stage you suppose the process to be applied.

4250. Is it necessary for your argument to assume that cheap money here affects the outside world more than it affects us, and that dear money here affects us more than it affects the outside world?—No. My suggestion is that cheap money here, coupled with the export of gold, the loss of gold, tends to have a restrictive effect on credit here.

4251. But only if we reverse the cheap money policy?—No, I think the export of gold has some effect consistent with cheap money.

4252. *Mr. Brand*: The effect is psychological?—Yes, it is psychological, because it drives the market to borrow from the Bank. But whereas the loss of gold would tend to have some restrictive effect on credit here, the gain of gold in foreign countries would tend to have accelerated their cheap money policy.

4253. *Mr. Keynes*: I suggest that the loss of gold here only has a restrictive effect if it leads the Bank of England to reverse the easy money policy?—No, I do not think it has a very substantial restrictive effect if it is coupled with cheap money, but I think the loss of gold does have some restrictive effect.

4254. The Bank of England could only continue to keep money easy if it were by open market operations replacing the gold by securities?—Yes, I agree that the restrictive effect of the loss of gold on the assumptions made would be small compared to the inflationary effect of the receipt of gold in other countries, and I would also quite freely admit that it is possible in the circumstances of 1925, 1926, 1927, or 1928 that the recipients of the gold might have taken steps to sterilise it, but having regard to the very obvious bias of the Federal Reserve System to cheap money and credit relaxation in the whole period 1925 to 1928, I do not think that is so.

4255. *Professor Gregory*: Is not the proper answer to Mr. Keynes this, that you might have kept wages steadier and let wholesale prices rise? Supposing wages were 10 per cent. too high in relation to wholesale prices?—It is rather difficult to say what the course of events would have been; it depends, for one thing, on the extent to which the cheap money policy was carried. If it were carried beyond a certain point, you would get a material rise of prices relative to wages, which, of course, would almost certainly be accompanied by some rise of wages.

4256. *Mr. Keynes*: I am wondering whether what you are saying is probable. We are an important part of the world, but a minority of the world. You are suggesting that, supposing we were prepared to lose a fairly substantial proportion of our gold, that that spread about the world, although it is spread over a very wide area, is going to have a larger effect on world prices than our easy money policy operating here is going to have on ours. Is that a hypothesis on which you would risk very much?—I do not think you risk very much, because all the time you are exporting gold the export of gold itself is a corrective of your balance of payments; it balances your balance of payments and affords you shelter under which your industrial situation is being revived. You may reach a stage at which the loss of gold becomes excessive, and then, no doubt, you have to put on the screw, but the trouble has arisen in recent years practically owing to the fact that the screw was put on at a time when we could not stand it.

4257. How much gold do you consider we could have lost with impunity in 1924, 1925 and 1926?—I would have gone up to £100,000,000; I think it would have been worth getting rid of £100,000,000 of gold in order to cure unemployment.

4258. That would have meant altering the Law?—No; we had ample legal power to do it.

4259. Prior to the return to gold?—No, prior to the Act of 1928. (*Mr. Lubbock*): In other words, prior to the amalgamation of the Note issues.

4260. *Mr. Keynes*: You would have reduced the gold stock of the Bank of England? I think it was about £140,000,000 to £150,000,000 at that time?—Yes; it was £160,000,000 in the middle of 1925.

4261. At the time of the amalgamation of the Note issues it was £154,000,000? You would have been prepared to reduce the gold stock of the Bank of England from £154,000,000 to £54,000,000?—Yes.

4262. I should like to ask, first of all, whether that would have affected speculation against sterling?—I think it could have been done in such a way that it would not, but if it had not, the speculation against sterling would have created a situation in which an inflation of credit would have cured unemployment very quickly. You will recollect in the autumn of 1923 that very thing began, a speculation against sterling, and there was a greater improvement in trade than at any other time since 1920.

4263. I do not know that I agree with that. I should like to follow that. The total stock of gold in the world is £2,000,000,000; so that £100,000,000 would be 5 per cent. of that?—Yes.

4264. The fall in international prices from the end of 1924 to the middle of 1927 was about 15 per cent.?—Yes.

4265. You think that letting out into the world a 5 per cent. addition to the stock of gold would have prevented prices from falling?—There is only one place to which the gold would have gone, and in which the gold would have had any effect—the United States.

4266. If the gold had only gone to the United States, and had only affected the situation there, surely it would not have helped us to any great extent?—Yes. There was very little of the world which was on a gold standard then. Germany was just starting on it.

4267. What is it that one is seeking to effect? One is seeking to affect world prices?—Yes.

4268. World prices are determined by the demand throughout the world, not simply by the demand of the United States; so that if the inflation were limited to the United States, you would not get a proportionate rise in world prices?—In the conditions that existed in 1925-1926, there were very few countries in which the demand for gold was relevant at all. It was practically confined to the United States, and all other countries, so far as they were on a gold standard at all, would have quite readily followed the lead of London and New York so far as the value of their currency was concerned.

4269. *Chairman*: How would the prices in those other countries have been affected if they had not had an additional supply of gold?—Some of them would not have been affected at all, because they were not on a gold standard, and therefore it would not have mattered. In the case of Germany, the Reichsbank would probably have been regulating credit with a view to the exchange situation.

4270. *Mr. Keynes*: The equilibrium that we seek to-day is in terms of trade in comparison with other countries?—Yes.

4271. We should with our higher exchange have been in no better position in that respect? I am assuming that although other countries were not on a gold basis, our exchange would have risen?—I think the broad answer is that in those other countries, Canada, Sweden, Switzerland, the general practice always is to regulate credit so as to keep the exchange within reasonable distance of par. If you get an expansion of credit starting in London and New York, those other countries accommodate their credit situation to that almost automatically.

4272. Even if they are not on a gold standard?—All those I mentioned were on a gold standard; those that were not were neither buying nor selling gold. I do not think any of those countries in the circumstances of 1925 would have either increased or diminished their gold to any appreciable extent.

4273. Your assumption is that, if we had let out £100,000,000 of gold, that would have raised the world prices 15 per cent. more than our cheap money policy would have raised ours?—I do not agree with that statement at all. Fifteen per cent. represents the extent to which the world prices actually fell between 1925 and 1927. That shows the effect of our high Bank Rate. The actual discrepancy, the difference that you had to remove between the British and other price levels was very much less than that.

4274. You are assuming what I do not concede, that our Bank Rate was the determining factor?—I do not know what you would call the determining factor. It is very difficult to point to any other.

4275. I have a theory as to what caused the rise and fall; I should have said it was failure of investment throughout the world to keep pace with savings?—As I understand it, what that means is an insufficient amount of investment, that is to say, an insufficient amount of this outlay created out of nothing, arising out of the fourth dimension. Well, the way to conjure outlay out of the fourth dimension is to lower Bank Rate.

4276. I quite agree that the lowering of the Bank Rate here would help trade. I do not consider the British Bank Rate is the sole determinant?—I have never said that the British Bank Rate is the sole determinant. I think I said it is the predominant factor. In the conditions of 1925, 1926 and 1927 there were only four Bank Rates in the world that had any significance. Apart from the American and English, there were the Dutch and Swiss.

4277. That will provide a convenient transition to my next point. The Bank of England, in so far as it dominates the gold situation, has, in my opinion, done so to a great extent by its effect on the rate at which we lend money to foreign countries. You said primarily through the bill market. I should have said primarily through the new issue market?—It is the long-dated rate of interest that you regard as the decisive factor?

4278. No, I should have said fluctuations are much greater in the foreign issue market than in the bill market?—When you speak of the foreign issue market, do you mean the net export of capital?

4279. No. By the net foreign investment I mean the favourable balance of trade on income account; apart from that there is foreign lending, and if foreign lending is in excess of foreign investment the difference must go in gold. The foreign lending is the amount of the favourable balance plus the gold exported. I am saying that the variations in foreign lending as the result of dear money or cheap money in London through the new issue market may be greater than the variations through the bill market?—I am not really prepared to offer you criticism on that theory with the amount of knowledge and understanding that I have of it at present. If you could put specific questions to me as to what the effect of foreign lending is——

4280. I will start again. If we had had this cheap money policy in 1924 to 1927 it would have led to a loss of gold, as I understand you, primarily because London would have been an attractive place in which to discount bills?—No, I do not think I said anything to suggest that. What was in my mind was that there was a discrepancy between the internal price level and the external price level or, say, between the British price levels and the foreign price levels to start with, or to put the same thing in another way, that the consumers' outlay in England in terms of pounds was excessive, was calculated to attract too much imports, that in order to get back to equilibrium it was necessary to contract the consumers' outlay, or failing that, in the absence of equilibrium, we should have to pay for the excess of imports attracted with gold.

4281. According to paragraph **25**—that is what I meant to start from—you think that the primary effect of cheap money would have been to increase imports relatively to exports?—No. Paragraph **25** deals with a general, hypothetical case. Your question deals with the question of fact in the past, and what I meant to say was not that the cheap money would cause an excess of the consumers' outlay, but that the cheap money already existed, that dear money was invoked in order to correct it, but that that was a mistake because it reduced the consumers' outlay abroad as well as at home. The loss of gold would have been occasioned by our failure to contract the consumers' outlay.

4282. We should have lost gold to a certain extent on the import and export position?—Yes.

4283. But we should also—and that seems to me to be left out here—have lost gold on capital account; we should have lost gold because the cheap money market would have led to London being an attractive place to discount bills, would it not?—Yes, but I do not attach very much importance to that.

4284. Secondly it would also have led to a very much larger volume of new issues in London?—I do not think it would. I think the answer to that is that the new issues in the London investment market depend upon the amount of savings available. If the new issues are excessive the result is that a quantity of new securities is left on the hands of the underwriters. As soon as that happens there is an automatic stop put to the new issues, the promoters are discouraged from bringing them out, the terms are made more unfavourable, so I do not think it happens to a serious extent that the long-term lending outstrips savings.

4285. But if the Bank of England insists on keeping money cheap, that means that there will be an insufficient increase of Bank Rate to choke off the increase in new issues?—I do not think so. I do not think the investment market as a whole is prepared to increase its indebtedness very largely merely on the ground that money is cheap. What causes an increase of advances on stock market securities is a tendency to speculation, for people expect capital appreciation and think it worth while to borrow for that. I do not think the professional dealer in stock market securities is prepared to expand his indebtedness very largely merely because the interest charged is low.

4286. I think I see why I do not agree. I should agree that gold exports of the order of £100,000,000 would probably have looked after the more adverse balance of trade on income account if we had had cheap money instead of dear money in 1924 to 1927?—Yes.

4287. But my view would have been that the effect of foreign lending on us, partly through the bill market and partly through the new issue market, would have been a gigantic factor, and would have led to a loss of gold far in excess of £100,000,000 if that policy had been persisted in throughout?—I think all that line of argument implies a much closer relation between long and short-term rates of interest than actually exists.

4288. You are arguing that even lending for short periods is not affected by the short-term rate of interest, because you said the effect on short-term lending was not important?—That is another point. The reason why I say the effect on short-term lending is not important is this. There are two or three different reasons. One is that a difference in rates of interest is very easily offset by the exchange risk, that it very often happens that a difference in the rate of interest between two centres would appear to make the transfer of balances from one to the other attractive, but when you look into it you find that over the period for which this kind of transaction usually extends the charge for forward exchange just about offsets the gain in interest. That is one thing. Another thing is that even when it is more profitable to invest funds abroad, the lending is done almost exclusively by banks, and banks are unwilling to extend their foreign assets beyond a certain limit in relation to their domestic liabilities. Then another thing: When the situation is such that it is profitable to lend for short periods abroad the lending is done in a fairly short space of time. You get a state of affairs in which it becomes attractive to lenders to transfer their money from one centre to another. There is no reason why all of them should not want to do it at once, it is not a process that you could expect to be extended over a long period. It is quite true that there will be new lenders coming forward after an interval. On the other hand, some of the old lenders will be needing their money and withdrawing it, so that the favourable effect on the exchange of high money rates or the unfavourable effect of low money rates, so far as the transfer of balances is concerned, is likely to be very short. But when it occurs the actual position that arises, supposing you imagine London to have lent £20,000,000 to New York some time in 1925, the effect of that is to strengthen London's position from the point of view of maintaining the gold standard, in much the same way as if she had imported £20,000,000 of gold. If you export balances to the tune of £20,000,000 and at the same time export gold to the amount of £20,000,000, your visible reserve position is impaired to the extent of £20,000,000; on the other hand, the possession of short-term credits abroad, even though they are in the hands of private bankers and not of the Central Bank, is a source of strength in your credit position and, therefore, it is not a thing to be anxious about.

4289. *Mr. Keynes*: It is, of course, essentially a practical question. I think that Mr. Lubbock would probably agree with me that the view of the Bank of England is that lending through the bill market and through new issues is sensitive to the Bank Rate? (*Mr. Lubbock*): I should have said so. (*Mr. Keynes*): Do you know anyone connected with practical finance who doubts that? (*Mr. McKenna*): I should not agree with this part of your evidence, Mr. Hawtrey. I think the bill rate is far more effective on the exchange than you allow?—I did not deny that it was effective. I suggested though that its effect is transitory, that the favourable effect on the exchange only lasts while the balances are moving, and they stop moving after an interval.

4290. I should not agree. I think the power of balances to keep moving is very great.—If you put that in quantitative terms, supposing you get a £20,000,000 move in a fortnight, would you imagine that £10,000,000 a week would go on moving for six months?

4291. *Mr. McKenna*: It is difficult to suggest precise figures for precise periods, but I should not view £10,000,000 a week for a number of weeks as an exceptional amount. (*Mr. Brand*): Your acceptances are going on all the time too, people transferring their credits from New York to London. (*Mr. Keynes*): The short money in New York has fluctuated by £200,000,000 in a year without there being any abnormal circumstances?—What are you including in your £200,000,000? I have always failed to get any precise statistics of this at all. It is extraordinarily difficult to get any facts as to the international short term liabilities except the foreign currency holdings of the Central Banks like the Bank of France or Belgium.

4292. *Mr. Keynes*: The Federal Reserve Board collects figures every month from all people who would be holding bills or call money or deposits for foreigners, and those are communicated once a year to the Department of Commerce. That shows that the sums involved are very large indeed.—I know these statistics, but I must confess I have always felt a certain distrust of them. If you study carefully the basis, you find that they are incomplete.

4293. What are the statistics on which you base your own conclusions?—I have always failed to get any statistics. What I have been saying is based upon a study of the motives at work. I spoke of the exchange risk. If you get a sudden rush of balances abroad the effect, of course, upon the exchange is marked. It makes the exchange very unfavourable to the country that is losing the balances; it therefore intensifies the exchange risk run by all the people who are investing abroad. Supposing you get a sudden rush of balances to New York to take advantage, say, of the 9 per cent. call money rates last summer, the effect would be to raise the value of dollars in terms of sterling.

4294. But is it not dangerous in a matter of this kind to neglect both what statistics there are and also what I should say is the practically unanimous opinion of all persons engaged in the business?—With regard to what statistics there are I do not think you will find any close correlation between those American statistics and relative money rates. Have you ever attempted to discover that?

4295. The attraction of high call money rates during a part of 1929 largely explained our loss of gold during the ensuing period.—I should have thought there were other explanations that were likely to be true.

4296. If we return to the lending on long account: When the United States owing to their local dear money dropped out of the foreign bond market, as they did in 1929, the rate at which they were lending fluctuated by more than the amount of £100,000,000. It was more like £200,000,000.—On what do you base your estimate of the amount of foreign lending by the United States?

4297. New issues.—But the new issues are a very poor indication of the total amount of foreign lending.

4298. I should like to divide the question into two parts. You have been saying that the fluctuations in liquid balances were small, therefore, you cannot now use that as an offset to the fluctuation in the new issues.—I will give you the figures for 1929—I ought to have remembered that this Department of Commerce return only goes up to 1928.

4299. The figures are available for 1929?—They are?

4300. Yes; I have not got them in my head. At any rate, your judgment is that if we had pursued the policy of cheap money during all that period it would have made little or no difference to foreign issues finding their way to the London market?—Yes; that is my opinion.

4301. *Mr. Brand*: On the ground that the savings would not be there?—There might have been short period effects. There might have been a spurt at some time of new issues, but I think they would have been brought to an end pretty quickly by the difficulty of disposing of them, and also I think that the difficulty of disposing of them would probably have led to their being sold to foreign countries, reversing the process.

4302. *Mr. Keynes*: Even though the Bank of England were keeping credit easy in this country?—Yes, because easy credit does not raise prices of stocks and shares necessarily. Of course, there are certain circumstances and certain directions in which it has a very obvious effect, particularly on the gilt-edged market, but if the immediate effect is to make the London investment market favourable, then as quickly as borrowers take advantage of that the favourable effect is eliminated quite independently of the price of credit. The same thing can be put in another way, that the only way in which this can operate, the effect of cheap money, in attracting foreign issues, is by the cheap money resulting in the stock market extending their indebtedness, that is to say, your low Bank Rate expanding credit in that particular direction. Anyhow, the low Bank Rate is intended to expand credit either to carry commodities or to carry something else. Credit may be expanded to carry securities. If it happens to take that form, if sums are borrowed from banks in order to carry international securities, foreign securities, that itself has a strengthening effect like foreign balances upon the monetary situation; that is to say, whenever you try to correct the situation by raising your Bank Rate again you may force sales of those foreign securities for the repayment of the advances, in exactly the same way as you may bring about the diminution of your outstanding bills and the recovery of the balances that have been lent abroad. This extension of the indebtedness of the investment market to carry foreign securities is very similar to lending balances abroad.

4303. That brings me to the next point that I wanted to raise. If Mr. Hawtrey is right that cheap money in London has more effect on prices abroad than it has on prices in this country, and has a very small effect on what we lend through the bill market . . . ?—May I correct one thing? My suggestion that cheap money has a greater effect upon price levels abroad than at home was confined to last year, when I said that the reduction of the internal price level here had become impracticable owing to the resistance of wages. With regard to the earlier period which we have been discussing, I maintained that the effect on the foreign price level was perhaps not very much less, though I admit it was less than the effect here. But I argued that that difference would be corrected by the effect of exports of gold. I just thought it necessary to make that correction, because I think there was a misunderstanding in your summary.

4304. *Chairman*: I gather that you dispute Mr. Hawtrey's premises?—(*Mr. Keynes*): Yes, the assumption of fact that he implies. (*Chairman*): If his premises of fact were sound the results would follow. (*Mr. Keynes*): These particular results which he speaks of as being due to the policy of the Bank of England I could accept as correct. (*Chairman*): You agree, Mr. Hawtrey, that these premises are eminently disputable; they must be?—As to the extent of the short term balances and the export of capital? Well, I should have liked to have heard more definite evidence on the other side.

4305. But what about your own evidence?—I regard my arguments as very cogent. All I hear against them is that practical opinion is unanimously against them, but that does not dismay me unless practical opinion can give good grounds for its beliefs.

4306. *Mr. McKenna*: I agree so much with your evidence that I want, if I can, to get you to accept a distinction, which will enable us to agree entirely. You have spoken alternatively of plentiful credit and cheap money. Do you think plentiful credit and cheap money necessarily go together?—May I draw one or two distinctions? First of all, when you speak of plentiful credit do you mean plentiful credit in the competitive banks or in the balance sheet of the Bank of England?

4307. I mean plentiful spending power in the hands of the public.—I regard the fundamental thing as what I have called the consumers' income and outlay, that is, the spending power in the hands of the public. Alongside that you have the total of the balances of money and bank credit in the hands of the public which I call the unspent margin. When you speak of plentiful credit, do you mean the total of the unspent margin?

4308. I mean the total of the deposits in the banks.—The deposits in the banks and also the cash in the people's pockets?

4309. And, therefore, money spendable.—I find the term "unspent margin" a useful name.

4310. Do you think that that total is a necessary function of cheap or dear money?—No, I think that total is subject to a number of different forces. I believe that it is possible to treat the whole question of expansion and contraction of credit and consumers' income and outlay with very little reference to the unspent margin. The unspent margin comes in as the difference between income and outlay up to date, and it is subject to large casual variations. The unspent margin is the thing that you can see, you can measure it from the returns of banks and the known circulation of money; it therefore acquires a special importance in the practical application of monetary theory. But sometimes you may get a credit expansion at work which does increase the consumers' income and outlay and yet no important increase in the unspent margin. Or again, in 1920 you got a tremendous collapse of the consumers' income and outlay accompanied over quite a long period by a gradual increase in the unspent margin.

4311. I understood you to say that you would regard as the proper criterion for the Bank of England to have in mind in its policy for expanding or contracting credit, movements of the price level and movements of unemployment?—Yes.

4312. You take those two criteria for the purpose of expanding or contracting credit?—Yes.

4313. I agree with you on that point. Would it be necessary for the purpose of expanding or contracting credit to raise or lower the Bank Rate; would the raising or lowering of the Bank Rate necessarily follow?—I do not think it would be invariably necessary. Before 1839, when the Bank of England first learned to use Bank Rate, it used to regulate credit exclusively by buying and selling securities. It did not always find that very successful, but on the whole it was not a bad method. But I think that in general one must recognise that the buying and selling of securities cannot be relied upon as an adequate method of expanding and contracting credit; it must be associated with a variation in Bank Rate so far as may be necessary.

4314. I do not think I should agree with you that a low Bank Rate is not necessarily dangerous. But do you conceive it practicable to maintain the Bank Rate at, say, 4 per cent. or 5 per cent. and nevertheless to expand credit?—Oh, under certain conditions; there are conditions in which 4 per cent. or 5 per cent. is a low Bank Rate. The effect of any given short term rate of interest upon borrowing depends upon the prospect of profit to the borrower. If you get a time of expanding credit, 5 per cent. may be a very low rate; 6 per cent. was thought a low rate in 1920.

4315. You regard cheap money or dear money as expressed by the Bank Rate?—Yes.

4316. The money market rate is definitely related or should be related to the Bank Rate?—Yes.

4317. The money market rate is the rate at which bank bills are discounted?—Yes.

4318. The money market rate depends upon the relation of the amount of money available for discounting bills and the amount of bills available in the market to be discounted?—Yes. That, of course, raises the question of the methods by which the Bank of England makes Bank Rate effective or ineffective. The general principle as I have always understood it is, that the Bank of England can always make Bank Rate effective by cutting down the supply of money in the money market to such a point as to drive the money market to borrow. Of course, for a day or so it will not necessarily make Bank Rate effective, but if that policy is applied persistently it will ultimately raise the open market discount rates to very little below Bank Rate.

4319. Under those circumstances, where there is a shortage of bills discounted you may get a contraction of credit in order to make Bank Rate effective at a time when such contraction is very injurious to trade?—Whether it is injurious to trade depends upon what are the circumstances.

4320. You may get a contraction of credit at a time when it may be very injurious to trade?—It is obviously possible. It depends upon what the condition of trade is.

4321. I am only putting a hypothetical case: Can you conceive it practicable that Bank Rate might be made effective by increasing the supply of bills without contracting credit?—When you say increasing the supply of bills, do you mean by the intervention of the Government or the Bank, or by the natural growth of commercial bills?

4322. One method would be by substituting other Government securities for Treasury Bills in the Issue Department of the Bank.—I do not think the difference between the Issue Department and the Banking Department for this purpose is very significant. The time honoured method by which the Bank of England makes Bank Rate effective is by selling securities.

4323. I am trying to get from you whether you think that might not be improved upon?—I suppose when they sell securities it very often takes the form of letting bills run off.

4324. It is the same thing.—I do not think it makes very much difference whether it is bills or other securities.

4325. Would it not make a difference if the Bank of England took Treasury Bills from the Issue Department and substituted for them other Government securities, and those bills were then sold?—Yes, you could make tight money in that way.

4326. Would that not increase the supply of bills in the market?—Yes; you could make Bank Rate effective in that way, you could equally well make it effective by selling Consols.

4327. *Mr. McKenna*: Selling Consols would contract credit. (*Mr. Keynes*): Mr. McKenna's point is you would substitute one for the other. (*Mr. McKenna*): If you substitute other Government securities for Treasury Bills, would you not increase the supply of bills by selling Treasury Bills and buying Consols; would not that have the effect of making Bank Rate effective without contracting credit?—Yes, I think it probably would.

4328. *Mr. McKenna*: Then would you not get over the point which is in dispute, as to whether lowering the Bank Rate might not have an injurious effect upon the stock of gold? (*Mr. Keynes*): Not upon Mr. Hawtrey's theory. (*Mr. McKenna*): On your theory it would not, but would not that get over the point of disagreement? Would you not obtain your result of not unnecessarily diminishing credit if you maintained the Bank Rate effective by increasing the supply of bills?—That raises a different set of questions. You are now particularly laying stress on the question of the method adopted by the Bank to make Bank Rate effective, suggesting that it could raise the rate of discount in the market without forcing the market to borrow from the Bank.

4329. Your whole argument is turned upon cheap money?—Yes.

4330. For the purpose of reviving trade?—Yes.

4331. Are you aware that below a certain point cheap money, as you know it, has little or no effect upon trade, because banks do not lend below that point?—You are talking of bank advances now.

4332. The trader has to pay to-day when money is very scarce; although Bank Rate is low traders do not get the advantage?—For the purpose of reviving trade I believe that the bill market is more important than the overdrafts and advances.

4333. You think it is more important?—Much more; incomparably more. For one thing I believe it is the mercantile borrower who is sensitive to the rate of interest; I do not think the industrial borrower is sensitive to the rate of interest. He may dislike having to pay a high rate of interest, but provided he gets orders to carry out he is willing to pay any interest within reason that may be necessary to provide himself with working capital. It is not there that you find the sensitive response to a change in the rate of interest. In the case of the merchant, especially the international merchant, who is financed by bills, very often the profit that he makes on his turnover is narrow, and he is very easily discouraged by a heavy discount charge from carrying out transactions. He will postpone ordering goods for export from one country to another if the discount charge is expected to be a heavy one. So for that reason I would say that cheap money is much more likely to revive trade through the bill market than through bank advances. But even in regard to bank advances, though the actual rate charged by the banker will not go below, say, 5 per cent., as the bill rate falls the banker becomes rather readier to lend by way of advances or overdraft, it becomes a relatively more attractive form of lending to him, more profitable.

4334. Has your attention been called to the fact that when you have a condition such as you have now of cheap money in the London market, the market begins to be flooded with finance bills of foreign origin?—Well, that all helps. All that money is required for a purpose. People do not float finance bills in order to spend money on champagne suppers.

4335. Foreign finance bills?—Yes. That is merely an example—perhaps not a very favourable example—of the effect of the Bank Rate upon world credit conditions. All that money is being used abroad for certain purposes. This outlay is conjured out of the fourth dimension, although it may be conjured into existence in foreign countries instead of here. Revival of trade in this country must mean a revival of trade all over the world. Nothing short of that will really satisfy us and, therefore, the kind of operation that you refer to is merely an extension of the process by means of which cheap money in London is going to revive trade all over the world.

4336. *Professor Gregory*: Would you not say if, as Mr. McKenna has pointed out, the type of bill now coming forward in large quantities is the finance bill, you must modify your previous remarks with regard to the inefficacy of a low rate of discount in stimulating the capital market?—I do not know what the finance bills are being used for.

4337. *Professor Gregory*: I suppose they are being used at the present time in carrying Government deficits in anticipation of long term loans. (*Mr. McKenna*): They are acceptances by foreign houses—nothing to do with this country?—No, nothing to do with this country. That I do not count as a disadvantage. To my mind it is of enormous advantage to restore to London the position of short term creditor so far as it can be done without an unfavourable exchange, as it is being done at the present moment.

4338. Would you not say it has begun to be done? We have yet to see the effect on the exchange?—Let me remind you that discount rates are still lower in Amsterdam, in Paris and in Switzerland than they are here, that the discount rate in New York is only a fraction higher than it is here, and if the rate is 3 per cent. and 2½ per cent. here that is offset by a discount on forward dollars. There is no serious threat to the exchange at the present time, and whatever dangers there might have been in having cheap money here with dear money abroad, the dangers have been eliminated now that we have cheap money abroad.

4339. *Mr. Brand*: What I do not quite follow is this. You apparently regard the Bank Rate as not very effective on the amount of short and long borrowings from London?—Yes.

4340. On the other hand, you regard it as enormously effective as affecting conditions in foreign countries and altering price levels?—Yes.

4341. You told us yesterday that it is through the acceptance market and the Bank Rate that the deflation of prices here is carried right throughout the world?—Yes.

4342. But do you not think the one policy requires the other. If it is to be enormously effective as regards prices in the rest of the world, it must have the effect that borrowing must be either greater or less in our case?—It is quite true that if we had cheap money in London concurrently with emphatically dear money abroad in all probability it would be impossible for us to maintain that situation. What I contemplate is rather that in the future when Bank Rate goes up or down in London it will for the most part be followed up or down by Bank Rates in other countries, not absolutely exactly, but much as it used to be before the War. This trouble about the movement of short term balances did not occur to the same extent before the War just for that very reason. The pre-War position was rather this, that whenever there was a drain of gold from London and Bank Rate was put up the first impact was felt in the acceptance market. London was an extensive short term creditor and the diminution of bills on London resulted in London getting the advantages of her creditor position over a short period and regaining her gold. But that diminution of the bills on London is in substance a movement of balances to London. Whether it is the extinction of indebtedness or the acquisition of a credit is a mere matter of detail. In substance this was the equivalent of the attraction of cash balances to London. When that happened other countries were not prepared to acquiesce in it indefinitely and they used to raise their bank rates, so that the whole of the civilised world would fall into line with the exception of certain countries, which might have a disturbance of their balance of payments such as would justify a material difference of money rates. But the general tendency was for Bank Rates to move together, and the mere fact that at the present time balances are very apt to move is likely to ensure that tendency continuing in the future. The possible exception is, as I state in my printed memorandum, that if you got a concerted effort to pursue a contrary credit policy to that of the Bank of England, the Bank of England could not hold out against that.

4343. But do you not think the situation is very much altered when you have got the New York market now, as you had not before the War, at least as powerful for lending to the world as the London market?—You are talking now of the long-term lending.

4344. Long and short. It may not be quite as powerful in the short-term lending?—I think if you get a conflict of credit policies between London and New York the tendency would probably be for the London policy on the whole to prevail, but not so decisively as it would before the War.

4345. *Professor Gregory*: Do you think if in the last four or five years the Bank of England had pursued a cheap money policy it would have had a certain moral influence on the other Central Banks?—That, I think, would have followed. But quite apart from the moral value, I think this question of balances is a material consideration tending to make other countries adopt the same policy. I think I ought to add this, that there is a number of countries in which credit policy is not mainly a matter of Bank Rates. It is very much more a matter of buying and selling assets by the Central Bank. You see that conspicuously in France. The total amount of re-discounts held in the Bank of France is very small compared to the total of their balance-sheet, and the result is that their Bank Rate policy is not usually the decisive factor. The decisive factor in most Continental countries is the extent to which they increase or diminish their note issue by buying or selling gold and foreign exchange. You find that all these Continental countries are in a position to regulate to a nicety the amount of gold they take by that policy; it does not affect to a very great extent their Bank Rates. I do not mean to say their Bank Rates count for nothing at all, they do count for something, but you get a whole set of countries which link themselves up to London rather through the medium of gold than through the medium of Bank Rates, and their interference with the Bank of England policy would take the form not of opposing the London Bank Rate policy in any direct way, but either taking gold from us or sending gold to us, according to what effect they wanted to bring about.

4346. *Mr. Brand*: I feel that you exaggerate the strength of the London situation in two ways. You assume that the export of gold almost immediately affects world prices; that is to say, the export of gold in any large amount?—No, I do not think that is assumed. That was assumed in what I was saying about the years 1925 to 1927. Mr. Keynes was examining me as to what would have happened if the cheap money policy had been adopted, and I admitted that it would probably have involved a very heavy loss of gold, but in regard to the future I suggested that the Bank of England ought to be in a position to absorb or release gold to a very large amount in order to keep itself as far as possible independent of foreign conditions, although I admit there is a limit to it if foreign countries take a definitely contrary policy.

4347. Do you think that the shipment of £30,000,000 or £40,000,000 last summer and autumn had any effect upon prices abroad?—No, I do not think so. As a matter of fact that nearly all went to France, did it not? That illustrates my point that the Central Bank policy of those countries is more or less independent of credit conditions; they take as much gold as they choose.

4348. That would be a great difficulty?—It would be, if you imagine the Bank of England setting to work to keep prices stable and the Bank of France taking gold for the express purpose of preventing them and driving the Bank of England to contract credit through a scarcity of gold. I quite agree that the Bank of France in the end must prevail, because it is turning the whole of its £200,000,000 foreign exchange into gold.

4349. *Professor Gregory*: Surely the danger is not that they want to take gold from London because of their policy, but because they are gold worshippers—they worship the golden calf?—That is a question of the French psychology. I do not think the mere love of gold would carry them much further than they have gone already.

4350. It could hardly do so?—It could hardly do so. I think that is the answer. But I believe the true explanation is not merely a love of gold, but the circumstances of the return of France to the gold standard. They deliberately adopted the plan of extinguishing their floating debt, and the result was to make an enormous gap in the assets of the Bank of France. That gap had to be filled with something, and for a long time they filled it with foreign exchange. But the time came when they had misgivings as to the amount of foreign exchange they were holding, and then they had nothing to fill it with except gold, because the amount of bills they were discounting could not fill the gap.

4351. I quite agree that if the rest of the world pursues a policy of gold hoarding, it is bound to have repercussions here. Gold here has played a very much larger role than you would be prepared to admit, has it not?—I think that is a possible danger. Obviously there are limits that we might reach. There is one method of economising gold, which I have referred to in the printed memorandum at the end; that is to say, that if the Bank of England chose to sell a large quantity of gold in the Banking Department for foreign exchange, it could hold that foreign exchange in the Banking Department for the purpose of defending the gold standard. It would be as good as gold. Meanwhile, the gold released would go abroad and help to satisfy the hoarding propensities that you fear. You could only release a limited amount in that way, but I think it is a device to be borne in mind that the Bank of England can, without making use even of the power of extending the fiduciary issue, get rid of a considerable amount of gold in the Banking Department and replace it with foreign exchange without impairing its reserve position in any way.

4352. *Professor Gregory*: May I go back to a rather earlier stage in your argument? If we may turn to paragraphs 57 to 60 of your memorandum, you suggest that the wholesale price index is not by any means exclusively a guide, and that you must take account of unemployment indices and so on, but what it really comes to is that you do not yourself believe in any very exact standard for the Central Bank to follow. It is a matter of judgment rather, and instinct?—Practically it may be so, but

I think that theoretically there is a perfectly exact standard underlying the practical consideration. The exact standard is the stabilisation of consumers' income and outlay in the sense I have described. but the practical indications, I think, have to be on these lines. You have to take the price index for what it is worth, and you have to modify your interpretation of that in the light of the unemployment statistics.

4353. Supposing one were to accept your view in general, that there ought to be some automatic relationship between a 1 per cent. rise or fall in unemployment and the rise or fall of credit of the Bank of England; that kind of temporary response would be very dangerous?—Yes; and I would lay it down as a general principle that it is impossible to regulate credit by rule of thumb; you have always in the end to be guided by practical judgment on the City and on markets in general.

4354. *Mr. Lubbock*: In paragraph **41** you say: "In order to prevent these variations in the purchasing power of gold, some kind of international action is clearly called for"—which I think is matter of rather common agreement now?—Yes.

4355. You also say that the Bank of England should take the lead and set the pace for other countries. That is where I cannot quite follow you. I should like to take up that point in reference to the events of last year. You have criticised the action of the Bank of England, or, at all events, questioned it, and suggested that other courses might have been taken. You remember in the last months of 1928 the New York Bank Rate was 5 per cent. and ours was 4½?—Yes.

4356. And in February, 1929, it was perfectly clear that there was going to be a set of gold towards New York?—Yes.

4357. Would you have kept the Bank Rate here low and allowed gold to go, and have bought securities *pari passu*?—I should have been very much inclined to do so.

4358. With the call money rates rising in New York as they were; time money rates 8 per cent.?—Yes; I admit the position was an extremely difficult one.

4359. Could you have seen an end to it?—My difficulty was that I could not see the end to the policy that was adopted. I was explaining that in a previous answer to-day.

4360. I suppose the policy that was adopted was to maintain the gold reserve or, at any rate, not to let it run down indefinitely?—Yes.

4361. *Mr. Keynes*: There *was* an end to it?—There was an end.

4362. *Mr. Lubbock*: The Bank Rate, which was at great difficulty maintained at 4½ per cent., went to 5½ per cent. and in September went to 6½ per cent. again when gold was going out?—Yes.

4363. What would have happened if we had kept at 4½ per cent.?—I do not doubt that we should have lost an enormous quantity of gold. Mr. Keynes says there was an end to it. I think the end came by artificial means. What happened was that after the stock market collapse occurred, apparently London and New York were settling down quite happily with a 5 per cent. Bank Rate here and a 4½ per cent. rediscount rate in New York, and they thought that that was the situation that was to continue. If it had continued, in my view all those difficulties which arose last year would have been experienced over again; that is to say, that the continued operation of dear money here would have gone on affecting the world price level and bringing it down, and would have weakened our position. It would have failed, as I have described, to reduce the price level here, and we should have got into the same vicious circle as before. To my mind the new fact that brought that process to an end was the Conversion Loan, which created a scarcity of bills in the London market and brought Bank Rate down.

4364. Is not dear money a purely relative term? During the summer of 1929 when the New York rate for call money was 12 per cent. and time money 8 per cent., was a 5½ per cent. rate here high?—Five and a half per cent. might not be dear at a time of reckless inflation and active trade; under the conditions that this country was in last year 3 per cent. might have been dear money.

4365. You suggest that we might have lost £100,000,000 of gold and that that would have corrected the position in New York?—I think, apart from some new factor, such as the recent reduction of Bank Rate, the gold standard was doomed, that the Bank of England would have found itself after an interval impotent to maintain the gold standard. That is my criticism of the high Bank Rate policy in 1929. I admit the extreme difficulty in deciding, because if the Bank Rate had been kept down and gold had simply ebbed away, the Bank of England would have had all the blame in the eyes of the public for the abandonment of the gold standard. I quite admit the difficulty, but in point of fact I think the gold standard was more directly threatened by the dear money policy than by cheap money.

4366. *Professor Gregory*: Or by the New York situation?—The New York position was a complication at the time.

4367. I do not see how you could attribute the possibility of abandonment of the gold standard in 1929 as being anything within the competence of the Bank of England, at a time when the New York 12 per cent. rate was draining gold from every country?—Our gold was not going to the United States in considerable quantities. It was going to France; the American demand for gold was not a very serious thing. If we had persisted in cheap money I cannot dispute that we should possibly have lost our gold, but whether it would have been a great evil I cannot say.

4368. Surely the reason why gold went to France was that the French bought dollars in London?—Gold went to France because it was the only possible backing for the note issue that it was essential for them to have. There was no other way of getting a supply of franc notes.

4369. *Mr. Lubbock*: In paragraph **12** you say, "The fall of prices, as it occurs, relieves the situation. The reduction of prices to the consumer stimulates sales." There has been no fall lately; do you not regard the failure of retail prices to come down as one of the most important factors?—I think I say somewhere else that falling prices in themselves are a relief to the situation.

4370. Falling retail prices?—Yes, particularly retail prices.

4371. That did not take place?—It did not, and therefore, the evils of the situation are intensified.

4372. And the failure of retail prices to come down is one of the great difficulties, is it not?—It is one of the many difficulties.

4373. It is retail prices which affect the poor consumer?—Yes, it is retail prices that determine the volume of purchases covered by the consumers' outlay.

Chairman: We are much obliged to you, Mr. Hawtrey.

(*The Witness withdrew.*)

(*Adjourned until Thursday, 1st May, 1930, at 4.30 p.m.*)

NOTE.—A Memorandum submitted by Mr. Hawtrey on Remedies for Unemployment will be found at the end of Volume II.

TWENTY-FOURTH DAY.

Thursday, 1st May, 1930.

PRESENT:

The Rt. Hon. LORD MACMILLAN, *Chairman.*

Sir THOMAS ALLEN.
The Rt. Hon. LORD BRADBURY, G.C.B.
The Hon. R. H. BRAND, C.M.G.
Professor T. E. GREGORY, D.Sc.
Mr. J. M. KEYNES, C.B.
Mr. LENNOX B. LEE.
Mr. CECIL LUBBOCK.
The Rt. Hon. REGINALD McKENNA.
Mr. J. FRATER TAYLOR.
Mr. A. A. G. TULLOCH.

Sir FREDERICK LEITH-ROSS, K.C.M.G., C.B.
Mr. G. ISMAY, *Secretary.*

Major CLIFFORD HUGH DOUGLAS, M.I.Mech.E., M.I.E.E. called and examined.

STATEMENT OF EVIDENCE SUBMITTED BY MAJOR DOUGLAS.

SUMMARY.

1. That the primary cause of the industrial depression and consequent unrest is financial. It is due to lack of power to buy, not due to lack of either power or will to produce. That is to say it is not in the main administrative, nor due to the technical relationship between employers and employed, but is due to money relationships which are governed primarily by the financial system, and secondarily by financial policy. Such "remedies" as "rationalisation" or "nationalisation" do not touch the fundamental problem.

2. That while the policy pursued in regard to credit issue probably controls the general rate of production, and may be the main cause of the differential rate of economic prosperity as between one nation and another, the fundamental defect of the financial system, as operated, is mathematical not political. The existing financial system is not a correct reflection of economic fact, as it should be, and is both misleading and restrictive.

3. Any effective remedy must traverse the claim of the banking system to the ownership of the financial credit extended to industry, a claim which is implied by the fact that at present money, constituting in the main new purchasing power, is loaned to a bank's customers, not given.

SECTION 1.

4. It may be helpful to define the phrases used in the preceding proposition

(i) *Industrial Depression.*—Industrial depression may be characterised as a lack of sufficient orders to keep both plant and personnel employed, together with an accompanying lowering of the price level in relation to the cost of production, so that both the manufacturer fails to make a profit and the volume of wages of the wage earning class tends to fall. The phenomena are cumulative and have no relation either to productive capacity or psychological demand. The material by-products are bankruptcies, the breaking up of plant, and the psychological by-products are industrial and political unrest and the destruction of social morale.

(ii) *Power to Buy.*—Power to buy consists in the ability to offer what the seller requires in exchange for his goods, i.e., money.

(iii) *Finance.*—Finance in its relation to industry may be defined as the provision of the monetary inducement to deliver goods and services. It is obviously the same thing as power to buy. It is proposed to prove that with negligible exceptions, power to buy originates, and is vested in the banking system.

(iv) *Financial System.*—This may be considered as having three parts, the credit issue system, the price system, and the taxation system.

(*a*) The credit issue system may be considered as predominantly made up of two factors, bank loans, and the discounting of bills. Since the result of both of these is to swell both the assets and the liabilities of a bank's accounts, they may for the purpose of this investigation be treated as similar.

(*b*) The price system is founded in the main on two propositions. Firstly, that all costs of production must go into prices. Cost, therefore, forms the lower limit of prices. Secondly, that the price of an article is what it will fetch, that is to say, the major limit of prices is governed by the ability and willingness of the purchaser to buy. It should be noted that while there is no major limit to prices business cannot under existing conditions be carried on with prices below cost. Any attempt to do this consists, in essence, in the provision of a credit subsidy by the seller in aid of a reduction of prices below cost.

(*c*) The taxation system is preferably considered in conjunction with the alternative method of providing money for public expenditure, which is by means of loans. The inducement to subscribe to a loan consists in the interest paid on it, and in the varying terms of redemption. Taxation may properly be considered as being a forced non-repayable, recurring "loan," a portion of the proceeds of which are used to pay the inducement offered to a voluntary loan. It is of importance to note that while the physical effects of spending money raised by taxation are exactly similar to those of spending money raised by a loan, in the latter case a financial asset is created, whereas in case of taxation no financial asset is created. One result of this is that, for instance, in Great Britain there is nothing corresponding to a capital account, its place being taken by the National Debt.

(v) *Financial Policy.*—Financial Policy may be defined as an endeavour to vary within the limits of the preceding definitions, both the volume of credit issue, and as a result of the second canon, of the price system, the level of prices. It should be noted that while prices may be driven down by financial policy to the cost of production, financial policy does not *directly* affect the *cost* of production other than by producing conditions which may induce workmen to accept lower wages and by the imposition of taxes which go into costs. The result, however, of financial policy directed to lowering *prices* within the existing financial system is to discourage production, and by causing a relative rise in overhead charges and a smaller volume of production may actually result in raising the minimum price level.

ARGUMENT.—SECTION 1.

5. In order to distinguish the artificial condition known as "industrial depression" from the underlying physical facts, it is perhaps desirable to survey the physical position of industry. It will be admitted that the ostensible objective of industry is the production for use of goods and services to an extent rendered possible by the progress of the industrial arts. The physical factors in the attainment of this objective consist of what are commonly called raw materials, which may be reasonably defined as materials in the state in which they are found in nature, the application to these raw materials of a process involving, in the broad sense, tools, and, thirdly, the expenditure of energy. The distinguishing characteristic of the nineteenth and twentieth century is the rapid advance of process together with the rendering available of large amounts of energy, which may be considered as derived from the sun, through the various agencies of coal, oil, steam, etc. It appears to be reasonably true to say that for a given process the rate of production is proportionate to the rate of use of energy, and to a large extent it is immaterial whether this energy is muscular or is applied by machines. The physical effect of these factors has therefore been to increase the rate of production of a given article per human unit of labour. For instance, the rate of production of pig iron is three times as great per man employed as it was in 1914. A workman using automatic machines can make 4,000 glass bottles as quickly as he could have made 100 by hand twenty-five years ago. In 1919 the index of factory output (based upon 1914 as 100) was 147 and the index of factory employment was 129. By 1927 output had risen to 170, but employment had sunk to 115. In 1928 American farmers were using 45,000 harvesting and threshing machines, and with them had displaced 130,000 farm hands. In automobiles, output per man has increased to 310 per cent., an increase of 210 per cent.

6. It will probably be admitted that the power and will to produce are sufficiently demonstrated in the foregoing considerations. It would not be seriously contested that the psychological will to buy does not exist, and it seems beyond dispute therefore, that the reason that buying up the power of the ability of the industrial system to produce does not take place, is because there is a lack of money required to pay the prices demanded. In a subsequent section it is proposed to prove that under the existing financial system the general public can at no time acquire by purchase the whole of production, but while this is so, and the *proportion of a given volume* of production which the public *can* buy is probably fixed by the system, *the total volume of production* is almost certainly governed by financial policy.

7. In order to fix responsibility for this policy it is, perhaps, only necessary to quote a recent speech by Mr. Montagu Norman, Governor of the Bank of England, as reported in the "Times" of March 21st, 1930. A previous speaker, Mr. Hargraves had said, "They held the hegemony, so far as this country was concerned, in finance, and he thought he might say, considering the way in which they were regarded in foreign countries, that they also held the hegemony of the world." Mr. Montagu Norman commented, "He was glad to note what Mr. Hargraves said about the hegemony in one place and another. He believed it was largely true, so far as Overseas were concerned, and if it was true, it was largely the result of work which the Bank had devoted, first of all to the stabilisation of Europe, and secondly to the relationships between the central banks, which were originally advocated at Genoa." In this connection it is of practical importance, as bearing on the difficulties of obtaining an alteration in the financial system itself, to note that the spokesmen of orthodox finance seem to assume the position of arbiters and protagonists of morals, both individual and international.

8. Some indication of the practical effect of the admitted hegemony of Finance and its interpretation of its functions may be gained by a consideration of the results of some of its activities in the post-war period, and may be helpful. Prior to its subjugation by the Financial Committee of the League of Nations, the following description of affairs in Austria, taken from Colonel Repington's "After the War," is fairly typical.

"I am much impressed by studying the Austrian papers. They seem detached and indifferent about foreign affairs, but are full of accounts of all sorts of new or extended industries springing up, and I counted twenty-three pages of commercial advertisements in Sunday's "Neue Freie Presse." I read or hear of every kind of old industry being extended and of some new one opened. New machinery is being employed, and on the farms prize stock are being bought and farm buildings improved by the rich peasants who throve on the war. From Upper and Lower Austria, Styria and the Tyrol it is all the same story of new developments, and what is really going on is an endeavour to make the new Austria less dependent on her neighbours, and less forced to buy abroad in markets made fearfully dear by the exchange. I find that two-thirds of the Austrian deficit is due to food subsidies, chiefly bread. A loaf of 1,260 grammes is now sold for nine kronen, but costs sixty kronen to the State. Even a Rothschild is paid, therefore, fifty-one kronen by the State for every loaf he eats."

Subsequent to the financial "stabilisation" of Austria, the correspondent of the "Observer," writing on February 15th, 1925, states "It is regrettable that the new wave of depression should have swept Vienna, to such an extent as to cause 149 cases of suicide during the past month."

The "New Republic" of New York in its issue of December 3rd, 1924, states: "The League of Nations at its last meeting imposed severe restrictions (financial) on the Austrian Government. These circumstances have made living conditions worse than at any time since the collapse after the Armistice."

9. On the other hand in France, which was physically the severest sufferer by the war, there is no unemployment, and there has been no serious attempt at deflation.

If we are to judge by such books as Monsieur Chastenet's "The Bankers Republic," French finance is free from undue purism and from any assumption of moral leadership. In spite of this, however, the industrial situation is admittedly better in France than it is in this country, and what is perhaps equally important, the plant of France has been modernised to a much greater extent than has been possible in England in these times of stringency.

10. The curves marked "Exhibit A" (*not reproduced*), attached to this section, indicates the business and psychological effect in Great Britain of the policy which has been pursued. During the period covered by the curve, in which the bankruptcies have risen from about 900 per annum to nearly 7,000 per annum, and the suicides have increased over the whole of the kingdom by 67 per cent. per annum, and in Scotland by 100 per cent., every large bank in Great Britain has maintained, or increased its dividend, has enormously expanded its premises, and placed large sums to its visible reserve, and created still larger invisible reserves, and this in spite of the enormous losses alleged to have been made in respect of loans to industry.

During the same period of time the greater proportion of the larger industrial undertakings have passed from the possession of those who originally initiated and financed them into the control of banks and finance houses.

It would appear a somewhat remarkable comment on this situation that the spokesmen of the Bank of England, so far from expressing any regret, appear to regard the results obtained as being a proper subject for self-congratulation.

In considering the policy pursued by this Institution and its obvious subservience to the Federal Reserve Board of the U.S.A., it is difficult to avoid the conclusion that it has come under the control of influences definitely hostile to the continued influence of Great Britain and (possibly under cover of paranoiac schemes for world reorganisation on a financial basis) has been a chief agent in the industrial demoralisation and social disillusionment which are now general.

Argument.—Section II.

11. In Section I it has been suggested that a state of industrial depression which may be considered to be synonymous with a condition of slackened production, arises primarily from financial and not from physical or psychological causes, and specifically from lack of effective demand, that is to say, from the difficulty of obtaining orders backed by the power to pay in money. If this be admitted, it is incontestable that any measures which increase the amount of money available to back orders will increase the rate of production, and conversely, any measures which decrease the amount of money available to back orders will decrease production. It is perhaps unnecessary before this Committee to go over the ground which has been so ably covered by one of its members, the Rt. Hon. R. McKenna, to the effect that the main cause of the increase or decrease in the amount of money available at any time may be found in banking policy, and notably in central banking policy. Mr. McKenna's argument may be epitomised in the statement that "every bank loan creates a deposit and the repayment of every bank loan destroys a deposit." Since, rather surprisingly, there are certain orthodox economists who are not prepared to admit this statement, I attach a simple mathematical proof which would appear to put the matter outside the range of discussion.

Let Deposits $= D$ Then Assets $= L + C$.
„ Loans $= L$ Liabilities $= D + K$.
„ Cash in hand $= C$
„ Capital $= K$ So that $L + C = D + K$.

Differentiating with respect to time we have

$$\frac{dL}{dt} + \frac{dC}{dt} = \frac{dD}{dt} \text{ (K being fixed) } \frac{dK}{dt} = 0.$$

Assuming cash to be kept fixed

$$\frac{dc}{dt} = 0 \;\therefore\; \frac{dL}{dt} = \frac{dD}{dt}$$

12. It would, perhaps, be misleading to describe this ingenious process as wholesale counterfeiting, as since the Bank Act of 1928 the State has resigned its sovereign rights over Finance in favour of the international private organisation known as the Bank of England.

13. Since 1920 the policy pursued in Great Britain under the leadership of the Bank of England has been continuously restrictive, that is to say, directed to the reduction of the amount of money available to back orders. This policy has been termed "deflationary," but it is open to considerable doubt whether the term is justified. It is applicable, correctly, to a situation in which prices and money are decreased in such a manner that the purchasing power of the unit of money rises in the same proportion that its total quantity is decreased. This condition has not been fulfilled, as the amount of money in the hands of the public has been decreased by taxation and by other methods at a considerably greater rate than prices have fallen. While the upper limit of prices follows approximately the quantity theory of money, the lower limit is governed by cost of production. The outcome of this set of circumstances has been to restrict production, to force down the price of real property, and to enrich the money lenders and insurance companies at the expense of the individual and the producer.

14. To indicate the divergence between the policy which has been pursued in this country and, for instance, the United States since 1920, it is perhaps sufficient to note that the increase in the total deposits of the London Clearing Banks for the six years ending October, 1928, was only £16,000,000, to a total of £1,790,000,000. In contrast with this, the increase in the deposits of the Member Banks of the Federal Reserve system over the same period of time was £1,873,000,000, or 83 millions more of an *increase* than the *total deposits* in the British banks. It is not necessary, I think, to seek further for the cause of the disparity in material and industrial prosperity between this country and the United States in the post-war period.

15. It is not suggested, however, that the difficulties inherent in the existing financial system have been solved to any considerable extent in the United States, but it seems incontestable that physical assets (which must form the basis of material prosperity under any financial system) have been increased in the United States, and their production retarded in Great Britain simultaneously, with a corresponding effect on the morale of the people concerned. The possibility of manipulating the economic prosperity as between one country and another through an international financial organisation, such as is growing up independent of effective national control, and having ends to serve which are not those of the populations affected, is perhaps one of the most serious aspects of the annexation of financial credit. It is at one and the same time rendered possible and condemned to catastrophe by the circumstance that it operates to produce a permanent and increasing disparity between the minimum collective price of products of the industrial system within a given credit area, and the collective, effective demand available for the goods so produced.

16. The causes of this disparity are complex, but the two more important are (*a*) the "double circuit" of money in industry, (*b*) the reinvestment of savings.

(*a*) The double circuit difficulty has been stated by me in the form of a proposition, which has been popularly known as the A plus B theory. A factory or other productive organisation has, besides its economic function as a producer of goods, a financial aspect—it may be regarded on the one hand as a device for the distribution of purchasing power to individuals, through the media of wages, salaries, and dividends; and on the other hand as a manufactory of prices—financial values. From this standpoint its payments may be divided into two groups.

Group A.—All payments made to individuals (wages, salaries and dividends).

Group B.—All payments made to other organisations (raw materials, bank charges, and other external costs).

Now the rate of flow of purchasing power to individuals is represented by A, but since all payments go into prices, the rate of flow of prices cannot be less than A plus B. Since A will not purchase A plus B, a proportion of the product at least equivalent to B must be distributed by a form of purchasing power which is not comprised in the description grouped under A.

The above proposition is perhaps most simply grasped by recognising that the B payments may be considered in the light of the repayment of a bank loan by all the concerns to whom they are made, with the result involved in the relationship previously discussed between bank deposits and bank loans. When real capital (i.e. tools, etc.) is financed from savings, that condition is complicated by (*b*).

(*b*) The persistence of the idea that monetary saving has a physical counterpart in physical accumulation will no doubt exercise the attention of historians of the present period. Since money is normally only distributable through the agency of wages, salaries and dividends, it being assumed that the interest on Government loans is provided by taxation, the whole of these wages, salaries and dividends must have appeared in the cost, and consequently in the price of articles produced. It does not appear to need any elaborate demonstration to see that any saving of these wages, salaries and dividends means that a proportion of the goods in the prices of which they appear as costs, must remain unsold within the credit area in which they are produced and are therefore, in the economic sense, wasted. The investment of the funds so saved means the reappearance of the same sum of money in a fresh set of prices, so that on each occasion that a given sum of money is reinvested, a fresh set of price values is created without the creation of fresh purchasing power.

17. It will be evident that the processes just indicated are at the core of the problem under consideration and that a more exhaustive examination of them than is desirable in this survey, is imperative. The present intention is merely to emphasise their existence and importance.

SECTION III.

18. From Section II it would appear indisputable that all but an insignificant amount of effective demand is dependent for its financial component on bank loans in various forms. It will be hardly necessary to remark that the only value of these bank credits is contingent on the willingness of the industrial community to produce and supply goods and services in exchange for them. While it is conceivable that an industrial system might operate without money, it is inconceivable that a money system could operate without an industrial system.

19. Financial credit, therefore, may be considered as a reflection of real credit, which is a measure of the capacity to produce, and deliver goods and services, as, when, and where, required. Since this conception of real credit implies an organised, orderly, and stable community, whose objective in production is consumption, it seems difficult to object to the statement that the real basis of credit is the producing and consuming capacity of the community, and still more difficult to justify a condition of affairs in which this credit is loaned to it as an act of grace, although a charge for its mobilisation can easily be admitted. It is practically, however, more important to realise that a financial system which separates the ownership of credit from the community is self-destructive, since only the community has the requisite consuming power to maintain production at its maximum.

20. In order to realise this, it is only necessary to bear in mind that money and credit are interchangeable, and that the definition of money is "any medium which no matter of what it is made, or why people want it, no one will refuse in exchange for his goods" (Professor Walker). Since the creation of financial credit is a costless proceeding in itself, the mechanical portion of the process merely consisting of writing figures in a book, and since financial credit arises out of this book-keeping technique, and is by definition practically the only effective demand for goods and services, it is plain that the whole of the goods and services produced by the community are the potential property of the financial system as at present operated. The financial system as such, however, is incapable of absorbing any considerable proportion of the possible production of the community, although it must be admitted that the proportion of branch banks to new houses in the past ten years shows a painstaking effort in this direction. It is not therefore necessary to labour the fact that the identification of the credit now claimed by the banking system with the general community is an essential to the equation of effective demand with productive capacity.

21. In the future attempts which will be made to give effect to such propositions as the foregoing, it will be necessary carefully to distinguish between the private administration of credit as a public property and what is commonly called "public administration," it being quite probable that the former is in every way preferable as a means of administration.

It may, perhaps, be permissible to quote from a book which has aroused considerable attention on the Continent, by the late Doctor Steiner, in this connection: "Modern socialism is absolutely justified in demanding that the present-day methods, under which production is carried on for individual profit, should be replaced by others, under which production is carried on for the sake of the common consumption. But it is just the person who most thoroughly recognises the justice of this demand who will find himself unable to concur in the conclusion which modern socialism deduces: That, therefore, the means of production must be transferred from private to communal ownership. Rather he will be forced to a conclusion that is quite different, namely: That whatever is privately produced by means of individual energies and talents must find its way to the community through the right channels."

22. Since it is quite probable that the time has not arrived at which it is practicable to obtain recognition of the contention advanced in this Section, it would, no doubt, be premature to put forward any constructive proposals which involve its acceptance.

It is improbable that individual business will, after the experience of the post-war period, be content to work with banks loans which are liable to call at the most inconvenient moment, and there is evidence of an increasing disinclination to take all the risk and responsibility in collaboration with institutions possessing neither technical knowledge nor common interest with the individual enterprise. No doubt an appreciation of this situation has a good deal to do with the intensive propaganda for "rationalisation," jointly with a genuine inability to apprehend the fact that the "efficiency" of very large undertakings is a paper efficiency based on access to credit, bulk buying, and price making, and in many cases has no physical basis, the genuine efficiency of the smaller undertaking being frequently higher.

4374. *Chairman*: Just by way of preface, I should say that our Committee, Major Douglas, had a communication from the Editor of "The New Age", and also from the Social Service Section of the Congregational Union, in both of which we were urged to hear your views, and in consequence of these representations we addressed an invitation to you to come here and favour us with your views. We have the statement of evidence which you have been good enough to prepare. Perhaps before we address some questions to you, you might explain how you came to interest yourself specially in this class of financial problem. What has attracted you to it?—Well, it is really rather a long story, my Lord. I had about six or seven years in India about 15 or 20 years ago, and during that time I used to have a good many conversations with a friend of mine who was then Controller-General of India. He was Mr. Branson, who was Accountant-General of Bengal and subsequently Controller-General of India. He used to favour me with very long discussions on credit, which I am afraid did not penetrate very deeply at that time. I more or less pigeonholed the things that he said in my mind. Of course, I am by profession an engineer as you have no doubt gathered; and I was struck by certain occurrences which seemed to require an explanation, notably the fact that just before the War it was very difficult to get on with various sorts of work in which I was engaged because there was always some question of scarcity of money. Then I noticed after war broke out there was no difficulty about getting money for anything, however wild cat the proposal seemed to be at the moment. I think the next stage through which I went was the drawing up of a scheme for getting some information out of the Royal Aircraft Factory at Farnborough, of which I was a senior official, and that involved the putting in of a number of tabulating machines for the purpose of getting information out of the factory very quickly. From those tabulating machines I got a lot of information for the purposes for which they were immediately required, but I also got what struck me as being interesting information of other kinds, as to the relation between prices and wages. I used to sign wages checks at Farnborough to the amount of about £20,000 a week—something of that sort—and I noticed there was always a curious relationship between the overheads of the factory and the mere cost prices of the stuff that was turned out, and the sums I was paying out in wages and matters of that sort. That was the next stage. Then I wrote one or two articles, very tentative sort of articles, after the War on the matter, and then I went over to Washington in 1919 and 1920 at the invitation of some Americans who had seen these articles, and I discussed the matter with a number of American industrial engineers and so forth. I think that is really about the course that the matter has taken, roughly speaking.

4375. That must be a very general statement, because obviously you have given a great deal of study to the questions involved. When did you first publish an expression of your views?—The first public expression of them was published immediately after the Armistice in "The English Review."

4376. You did not publish anything until after the War, but you had been a student of these matters before the War, I gather?—Yes.

4377. You tell us at the very outset of your statement that in your view the primary cause of the industrial depression and consequent unrest is financial. When you use that general expression do you mean that there is something inherent in our financial system in this country which necessarily leads to unemployment and unrest?—Yes, that is my view.

4378. Inherent?—Inherent.

4379. And that is quite irrespective of any special accentuation of those conditions by the War?—I have endeavoured to make that rather subtle distinction plain. If I might refer to paragraph 6 of my evidence—it is a slightly subtle distinction. I think of any given volume of production there is only a possible and probably diminishing proportion of that total which can be sold inside a given credit area, but the total volume can be expanded, and the absolute amount of the smaller proportion can be expanded by alterations in financial policy. Have I made that difference clear?

4380. What I really wanted to get at was this: If there is an inherent defect in our financial or monetary system, that is a defect which has existed certainly 100 years?—In an accelerated form, yes.

4381. I quite agree it may become much more accentuated, but if it is inherent in the system, that system has been the monetary system under which we have been living certainly since the Bank Act?—Quite.

4382. And in your view has that system been, quite bluntly, wrong from the beginning?—Well, I should not, of course, use the word "wrong" in any moral sense.

4383. No, no!—In an engineering sense.

4384. Inexpedient?—Inexpedient; pragmatically wrong. I should add that the position has been masked from the fact that you had a small number of industrial or industrialised countries able to export into an undeveloped world, and the fact that you were enabled to dispose of your unsaleable surplus in an undeveloped world enabled you to have a volume of production of which the proportion that you could sell at home was sufficient for the uses of the country.

4385. Is it your view that so long as we were on the up-grade, so long as we were a progressive country, able to produce and dispose of a growing amount of commodities, the defects of the system would not become manifest, but, on the other hand, when the world had more or less reached saturation, then the defects of the system would begin to be felt? Is that your view?—That is my view.

4386. Because, if our financial system has been on a wrong basis for over 100 years, I should have imagined that you would have had progressive unemployment and progressive depression, and not, as we have had, periods of quite excellent prosperity succeeded by periods of depression. We have had under the present monetary system periods of great prosperity, as you know, as well as periods of depression in the past. How would you account for that?—In order to give a really useful answer to that I should certainly have to look into a particular period. I think I should probably be able to find a perfectly satisfactory explanation of that.

4387. Perhaps it is too general a question to put to you, but we have already heard much evidence to show that we are at the present moment in a more or less abnormal or exceptional period when our monetary system is being exposed to stress and strain of a kind to which it was never exposed before; that the system is not itself inherently wrong, but that it will not work adequately under the exceptional strain to which it is being exposed at the present time. But your view is that it is inherently wrong?—It is.

4388. Therefore you would be giving practically the same evidence to us whether there had been a European war or not?—I think that the booms and slumps to which you refer are the result, broadly speaking, without going into details, of the fact that the improvement in the industrial system, and the rate of increase of productive capacity in the industrial system, would normally be very much greater than it is if it were not checked by the financial system. There is a sort of pull-and-haul between the industrial system, which wants to get ahead, and the financial system which perhaps automatically checks it, and, broadly speaking, that is the general explanation of the booms and slumps, without going into specific details.

4389. We have all read your diagnosis of the position, but I confess I should like to take advantage of your being here to-day to hear from you what is your practical remedy. We as a Committee have got to make practical recommendations. If you can imagine yourself in my unhappy position, as the person who is presiding over the body which has to make the recommendations, what would your practical recommendations to the country be to give effect to your view and remedy this inherently wrong system?—Well, I am afraid my training and experience as an engineer makes me want to hedge on that point. I should say that what I should first want to do would be to examine the situation very closely—more closely than in my position I am able to do.

4390. We are in that very process of examining the position, and we would like your help.—Broadly speaking, I have a very clear idea of what has to be done.

4391. Will you tell us what your clear idea is?—You have to equate the available purchasing power of the community to the collective prices of the goods for sale.

4392. That is of all the products of industry?—Yes, of all the products of industry which are available for sale.

4393. An equation involves two things, which have to be related. Which of the two things has to be corrected; is it the purchasing power which is wanting or is it the production which is wanting; which of the two sides of the balance has got to be dealt with?—Well, there, I think, you get into a technical point, and that is that if you attempt to leave the collective prices of the goods for sale alone, and proceed to deal with the collective demand by itself, you get into a technical difficulty which is commonly called inflation. That is to say that if you merely have a state of affairs in which by some process, crude or otherwise, you increase the amount of money in people's pockets—the units of money in people's pockets—and you leave everything else untouched, you get a general rise of prices which will defeat the end you have in view. But if you can utilise some mechanism, some existing mechanism, which will enable you to lower prices, and without the results which usually follow a lowering of prices—that is to say, bankruptcy, lower profits, decreased production, and so forth—if you can lower prices and leave the money in the pockets of the buyer you will produce exactly the same result of equating the purchasing power to prices without the evils of inflation. That is, broadly speaking, the position which you arrive at.

4394. *Professor Gregory*: How do you propose to do it?—How do I propose to do it? Well, I should again repeat the *caveat* that I entered first of all, that if I were Dictator I should want to examine the situation a little more closely, but it is quite possible to use the powers of creating credit in aid of a reduction of prices. You can pay for an article from two sources; the common method of doing it, of course, is by a subsidy in aid of prices. Now a subsidy in aid of prices, of course, is normally collected through taxation, but there is not the slightest reason why a subsidy in aid of prices should be collected through taxation; it can be provided by exactly the same methods by which we provide fresh money at the present time.

4395. *Mr. Brand*: In what way do you mean—by bank credit?—Yes. The basis of and the justification for bank credit is the fact that you immediately improve credit.

4396. How would the credit be repaid?—The repayment is involved in the price of the goods, and the ratio of the credit which you can supply under those conditions to the price of the goods depends on the real depreciation of the plant and materials in the country as compared with the real appreciation. You have two processes going on in any industrial country at any time; you have a depreciation, which you can call partly consumption, partly wear, partly obsolescence, and things of that sort, and you have an appreciation, which is new plant and many things which I need not go into. In my opinion, the true price of any article is the ratio of depreciation to appreciation, and if you accelerate the appreciation you can lower your prices below what is commonly called cost.

4397. Who pays the difference?—The physical difference is involved in the ratio of consumption to production.

4398. If I am a producer, and I produce something at a certain cost, do you say that I can, and should be able to, sell at below that cost?—No, I do not say you can, because you are not a creator of financial credit, as a producer, but the community as a whole can afford to have a system in operation by which it can subsidise you out of credit.

4399. The credit would not be given by the bank but by the community?—All credit is community credit.

4400. Supposing it is given by a bank; I do not see how the bank gets that credit back?—You mean the method of doing it?

4401. Yes. To whom does it give it, and from whom does it get repayment?—That is a matter of the mechanism. One form would be, that it could be given by the bank to the manufacturer and received by the bank from the Treasury.

4402. *Mr. Tulloch*: That involves a large creation of credit, does it not, for the benefit of the manufacturer?—It does not involve any larger creation of credit than at the present time, because the result is to lower prices.

4403. *Chairman*: May I put one point to you incidentally? The defective purchasing power is a symptom of the disease?—Yes.

4404. In short, we have not enough money to buy things we ought to buy?—Yes.

4405. If you are going to cheapen commodities by a system of subsidy, the subsidy has got to be found somewhere, and you suggest it should be provided by the community; but after all, as I not the community, am I not going to supply the subsidy to enable myself to buy cheaper?—No. As a community, at the present time—putting the matter quite dispassionately—you are divorced from your own credit.

4406. What exactly do you mean, apart from metaphor; how am I divorced from my credit?—Except for the use of the word "divorced" it is a statement of fact and not of metaphor. You have no power of creating financial credit at all as an individual at the present time. You are in possession of so much cash, you have a certain account with the bank, and the dimensions of that account are limited by certain factors which I feel sure it is not necessary to go into. That, of course, is not the case with the banking system. The banking system, with certain reservations, that is to say, the liability to pay cash on demand, which again is governed by its interlocking with the Bank of England, and the Ways and Means Accounts, which make the thing flexible, has a very nearly undefined limit of expansion, and that is the difference.

4407. I quite understand that one of the chief assets of a bank is its credit; it can create credit by, so to speak, issuing its own obligations, and in that sense it can create a very large amount of credit, governed only by what is prudent, which an individual cannot. I do not understand yet how your theory of a subsidy is to be worked out in practice, because it seems to me that the subsidy would in the end have to be found by the people who would have to pay the price of the commodity?—I realise the difficulty of moving over from an orthodox point of view to my own point of view, which is, perhaps, a little unorthodox. I look at the position in this way. There is nothing definitive at all about the money system. It is—or it should be; it is not at the present time—simply a ticket system, which is an adjunct to the general business of producing and distributing goods and services. The money system, as a money system, has no virtues whatever divorced—I must not use that word again

—separated, shall I say, from the industrial system. It is a pure form of convenience to be considered possibly in connection with a system of producing and distributing goods and services. Now the thing to keep steadily in mind, as it seems to me, is: What are your abilities to produce and deliver goods and services and at the same time what are your desires in regard to using those abilities to produce and deliver goods and services. That is the only thing that really matters. If you start with that objective then your business is to modify to any extent which may be necessary your ticket system to enable you to achieve those industrial and social desires.

4408. *Mr. Tulloch*: It follows from what you say, does it not, that the manufacturer is to get his credit free?—The manufacturer does not, in the very tentative form in which I have put the matter, get the credit really at all; it is the consumer who gets the credit. The consumer gets the credit in the form of a reduced price.

4409. I understood you to say that credit would be supplied to the manufacturer, and then you said that there would be no inflation on account of fresh bank credit created, because the price would be less. I assumed he must get his credit free, in order to produce at no greater price; in fact at a less price.—The credit which he would get would be to make up the difference between what he would normally charge for his article at the present time, and which, by hypothesis, is too high a price for the consumer to pay, and the lower price which he would be able to pay.

4410. I see; but does he not get it free? If nobody pays for it he must get it free.—I am not clear as to exactly what the point is. He is really getting his present price, which he arrives at by ordinary cost accounting methods, from two sources instead of one. At the present time he gets the whole of that price from the public—the consumer. The suggestion is that he now gets his price from two sources, one of which is the credit source, and the other is the public—the cash source.

4411. *Mr. Tulloch*: I see; but I cannot get away from the fact that he must get that credit free, according to your argument. (*Mr. Keynes*): And he reduces his price correspondingly. (*Mr. Tulloch*): Yes, he must; and if he reduces his price correspondingly he must get his credit free.—The consumer gets the credit free.

4412. *Mr. McKenna*: And does the bank pay for its credit?—For the employment of its very valuable mechanism in producing it, or for the actual credit?

4413. For the credit. Are you quite familiar with the working of the banking system?—Well, reasonably, I think.

4414. Reasonably?—Yes.

4415. I suppose you appreciate its working. Supposing for the moment that you are a borrower, and I am a banker. If you come and borrow £100,000 from me you take £100,000 from my cash?—Not from your cash, do I?

4416. From my cash, absolutely.—Well, it depends on the form in which I take it.

4417. If you borrow £100,000 you take £100,000 from my cash. You draw a cheque and it is presented to me, and I pay that. I pay it out of my cash?—You debit my cash with it.

4418. I have got to find the money?—You have to find the credit, yes.

4419. In the first instance I have got to find the money?—In what form? What are we talking about: in the form of money?

4420. Money, which would be my cash at the Bank of England?—Credit, not cash.

4421. *Mr. Lubbock*: Which you would pay to another banker. (*Mr. McKenna*): Which I would pay to another banker.—There would be a transfer. I have no objection to the word " cash ".

4422. I, the banker, have got to pay for that £100,000?—You have, as a transferrer of credit, certainly.

4423. For the £100,000 that I lend you I have to pay. Possibly you are not familiar with the working of the banking system. Do you appreciate the fact that the deposits of the bank on the debit side of its balance sheet cost it money to acquire?—I see we are at cross purposes. It is a question really of what we mean by " money."

4424. We are under a liability to pay for those deposits?—Certainly.

4425. We are paying, perhaps, two or three per cent. for them, taking an average?—Now I think I see. You mean there is the question of the cost of the money.

4426. Surely!—The interest cost?

4427. Certainly. Your view is that when a bank lends £100,000, that £100,000 comes back to them or another bank; that leaves its cash intact; but when it comes back to them or to another bank the bank has to pay interest on the new deposit created?—Yes, as a cost for the services.

4428. And interest for using the money?—Well, I am using " interest " in the sense of being a payment for the service of using the money.

4429. For the use of the service of money?—Yes; I was looking at the bank making a reasonable charge for the use of its money. It is obvious it has to make a charge for its staff, and so on.

4430. Who is to pay for that if the consumer gets the credit for nothing? Who is to pay the bank for creating the credit?—That is perfectly easy. I should regard the interest charged on the money, which is your charge for your services, as being one of the costs of production.

4431. Then the consumer would have to pay for the credit which he receives?—He would, quite obviously, have to pay a charge for the creation of the credit. That would certainly be so. But the credit would not be a repayable credit. He would get the actual credit in the form of a reduction of price; two or three per cent., or whatever it might be, for the actual mechanism of creating that credit would be a perfectly legitimate charge, but the difference is the difference between the charge for the credit, and the credit itself.

4432. *Sir Thomas Allen*: Would it be a charge in perpetuity?—No, it would be extinguished by the sale of the goods.

4433. *Mr. McKenna*: Even if you put the charge for the bank credit as low as that, only two or three per cent.,—it might be more—there is no economy?—I am afraid I have not made my point clear. The banking system proceeds upon the assumption that the industrial system has to follow the financial system—that if a difficulty arises in regard to the financial system, which, let us say, forms a check on the industrial system, the industrial system has to abide by that decision. In other words, the industrial system has to be subservient to the financial system. My primary proposition is, that the financial system has no *locus standi* at all outside the industrial and distributive systems, and that you can make any changes that you like with perfect ease in the financial system so long as those changes serve the necessities of the industrial and social system.

4434. Up to the moment, without going into the question of whether you should have more or less money, may I take it that your view is that as the quantity of production is increased, if there is to be no fall in the price, the quantity of money ought to increase proportionately?—That is broadly so.

4435. Need you go any further than that?—Oh! yes, it is necessary to go further.

4436. *Mr. Brand*: I understand from you that if I am a manufacturer and I go to Mr. McKenna and borrow £100,000, I then use that £100,000 to lower the sale price of my goods by £100,000 below what they have cost me?—That is the proposition at the moment, yes.

4437. Then how do I repay Mr. McKenna?—It is a question of mechanism. I have worked out one mechanism for it.

4438. *Mr. McKenna*: I would very much like to know it?—Of course, I should like to say, before I tell you what you are asking me to tell you, that in putting forward an explanation of this kind it is not put forward as a final scheme; it is simply put forward for the purpose of explaining how the thing can be done. It is quite possible. This is the form in which I gave it before the Canadian House of Commons a few years ago; it is practically the same question. Supposing that you sold a motor car for £100—we will make it an easy figure, to keep it in mind—the consumer would pay £100 as at the present time and receive an account for it; he would be given a receipt for the £100. He might conceivably turn that receipt into his bank, which would credit his account with, let us say, £25. The bank might collect the whole of those consumers' credits at any suitable period and turn them over to some Government department like the Treasury, which would credit the bank with the amount that it had credited the consumer. That would finish the transaction so far as the mechanism was concerned, and the result of that would be that you would have credited to the consumer a proportion of the general credit of the country which by hypothesis is his already, but not credited to him. The result of that would be a lowering of the price of the motor car in that case by 25 per cent., and there would be an increased sale of motor cars, or, let us say, an increased sale of all goods, because he would have £25 more to spend on other goods.

4439. *Chairman*: I buy a motor car for £100; I pay £100 and get a receipt from the manufacturer of whom I have bought it, which vouches that I have paid him £100. I take it to my banker, do I?—Yes.

4440. And on production of that voucher for £100 he says "I will credit you with £25"?—Yes.

4441. The result is, I have only paid £75 for the car?—Yes.

4442. The banker collects the credit—£25 in this particular transaction, but of course there will be a great number of them, because every commodity will be subject to the same kind of, not necessarily discount, but abatement or rebate?—Yes.

4443. I do not get the £25; it is credited to my account and the banker pays his voucher into the Treasury?—The consumer has got the £25. That is really the mechanism. What you have got is a motor-car, which by present methods would cost you £100, for £75.

4444. The banker then collects £25 from the Treasury?—That is right.

4445. *Mr. McKenna*: Where does the Treasury get its credit from?—The Bank of England at the present time supplies the Treasury on Ways and Means Account with money out of the credit of the country. That is simply the creation of fresh money. That is the case, I think.

4446. That is a double debit to the Treasury. Where does the credit to the Treasury come in? It owes one bank £25; what is on the other side? (*Mr. Lubbock*): A liability which might be translated, I suppose, into currency notes?—If the bank so desired.

4447. *Mr. Frater Taylor*: It is your subsidy without taxation?—It is your subsidy without taxation.

4448. *Chairman*: The Treasury, under this happy doctrine, is going to pay 25 per cent. of the cost of my car, is it not?—No, Sir; it is not. I shall have to take you back to the beginning, if you do not mind my labouring the point.

4449. We are most anxious. We know your views have commended themselves in many quarters?—Thank you! I must apologise for being elementary.

4450. You cannot be too elementary for me, I assure you.—The first point from which you have to start is this: You have at the present time an unused capacity for production. You cannot use it because you cannot sell; that is point one. Point two is that your financial system is nothing but a ticket system; it is not a matter of any importance whatever by itself; therefore, if it is necessary to make adjustments in your financial system then those adjustments can and should be made. Now your difficulty at the present time is the difficulty that your purchasing power in relation to your prices is insufficient, so clearly you have to lower your prices, or increase your purchasing power; to increase your money you really have to increase your purchasing power. The difficulty in discussing this subject is to keep very clearly in mind the difference between purchasing power and money. If you merely add to the amount of money you will probably not increase your purchasing power, because your prices will automatically rise. In order to avoid that difficulty one method by which it can be done is to lower your prices by means of a subsidy which does not come from purchasing power, which does not come from the public, which is already deficient in money, as compared with the collective prices.

4451. It is just at that point that I think the difficulties begin to emerge. Up to that point I think we might more or less agree with your statement; when you come to the question of remedy it is perfectly true we could produce more if we could sell more, we could sell more if we had more purchasing power, but the trouble is, if you create more purchasing power, and increase the volume of money, then, as you very properly say, the result will be that prices will step up and you will be as you were?—That is so.

4452. You wish to relate those two things so that you keep prices stable and at the same time increase purchasing power?—You increase purchasing power if you reduce prices.

4453. Your method is, so to speak, to obviate the rise of price by a counter figure which you call a subsidy?—I do not call it a subsidy; I use the word "subsidy" for the purpose of making the idea plain.

4454. A rebate, would one call it?—I should call it a rebate.

4455. It is by means of the institution of a system of rebates; although the price is nominally to rise it is not really to rise, because you are going to have a system of rebates?—Not nominally to rise. You have two price limits at the present time under the existing state of affairs—probably under any state of affairs in which you use money at all—you have one which is arrived at by the cost accountant, which is simply the addition of all sums which have been disbursed.

4456. All the factors?—All the factors. That, I think, is not the price system which in general, for instance, the banker has in mind. He has in mind the relation between the amount of money available and the amount of goods available. In other words, he assumes that the quantity theory of money works throughout the whole of the price range. Well, it does not; it works down to the point where the producer says "I am getting no money out of this and I will not produce and I will not sell," and no decrease in the amount of money available, no continued deflation, for instance, will seriously lower the price level beyond that point, because everybody goes out of business. Now in regard to what I was saying previously, the price arrived at by cost accounting actually varies as between factories; one factory, perhaps, is more efficient, or is better placed, or has an advantage of one sort or another; the consequence is that if you attack this problem by the crude method of saying "We will fix prices; the price of a pair of boots shall be 20s." you immediately get into the difficulty that you force the less capable and less fortunately situated producer of boots out of business, because he cannot produce at that price. You want his boots; you do not want to force him out of business; you want the fellow who produces at the lowest price to get the first orders, but when he has come to the limit of his production at that price you want the production at the other price; so instead of having a fixed price you want to have a lower price level, leaving individual prices still open to competition. Now you can lower the price level by the application to the price level of a creation of credit. You can, quite obviously, physically do it; there is nothing to prevent your doing it; your objective is to get rid of goods. The whole of the objective in mind is to produce; and distribute whether it be by the ticket system, the accounting system, the money system, whatever you like to call it; your sole objective is to get rid of the goods and to keep the production system going. You can do it; it is only a question of some form of doing it, and all the mechanism exists in embryo form at the present time.

4457. *Mr. Brand*: Supposing I were a steel producer, and had a factory which was only producing to the extent of 50 per cent. and I could not find buyers, and supposing you were Dictator, what would you do to help me?—I should not do anything to help you individually. I should make such arrangements that the price level of steel would be such that you could either sell in this country or be in a very strong position to compete abroad.

4458. You mean you would enable me to make a profit somehow, although I had to sell my product at much less than it cost me?—Yes.

4459. *Mr. Frater Taylor*: You would give a bounty, would you?—Yes; but you must dissociate the bounty from a subsidy. It is not raised by taxation. The method of raising money by taxation is just a pure mechanism, like any other form of mechanism, and you are not obliged to use that mechanism, but the thing that does limit you is how much steel you can turn out in a day; that is the real physical limit.

4460. *Mr. Brand*: You are not limited at all by the need for the Treasury to advance thousands or millions?—Not a bit.

4461. *Professor Gregory*: May I go back to the motorcar? You say if the motorcar costs me £100 I will get a chit, which I deposit with Mr. McKenna's bank, and he finally deposits it with the Treasury, and by a series of book-keeping entries 25 per cent. of additional purchasing power is created?—That is one form of mechanism.

4462. That is one form of mechanism, but I do not want to pay too much attention to the consumers' side—what is the position of the manufacturer? Are you assuming that the car costs the manufacturer £100, or that it costs the manufacturer more than £100? Is the actual cost price to the manufacturer what you pay for it?—Do you mean, is he making a profit?

4463. No, I am asking is he covering his cost if he sells at £100?—Oh! yes.

4464. You are assuming that he is carrying on his business on a perfectly definite commercial basis?—Absolutely. He is selling in competition with other people who may sell at £99.

4465. Your £25 does not really go to that motorcar manufacture at all?—No.

4466. It is added to the general borrowing or purchasing power of the community. Well, I do not see, in those circumstances, how you can prevent prices from rising?—I cannot see, as a matter of fact, how it can possibly cause prices to rise, again as a matter of mechanism, by this process. Supposing they do rise, your subsidy becomes inoperative.

4467. Let us suppose in a given period of time, one month, the total turnover of consumable goods in this country is £1,000,000,000, and let us take your figure of 25 per cent.; that means that at the beginning of next month there would be £1,250,000,000 of purchasing power available. I am only using your own figure of 25 per cent.—No, that is not quite true. I should not regard it, incidentally, as very important if it were true.

4468. Let us clear up that point first?—The result of your having done this is greatly to increase the total amount of sales in the country. Now, the whole of the price which is collected from the public becomes an item for cancellation, just as it does at the present time.

4469. How do you get it back? You get it from the consumer, you pay it into the bank, who pay it into the Treasury, who get additional credit from some source, but you never do get that back?—I will pursue this subject as far as you like, but I am frankly much more interested in making you see that the thing is perfectly possible. If you would really like me to get out a considered report as to the mechanism by which it can be done I shall be delighted to do it, my services are entirely at the disposal of the Committee, but the point that I want to hammer home is that it is inconceivable that you cannot get a mechanism which will enable you to equate purchasing power to the capacity to deliver.

4470. *Mr. Keynes*: Is it not probable that those of us who are criticising are not inclined to accept the inherent difficulty which you develop in paragraph 16 of your Memorandum. You divide payments there into A and B payments?—Yes.

4471. The cost of production to the manufacturer is A plus B. Of that A goes to the public and is spent by them on manufactured goods, but B goes elsewhere?—Yes.

4472. Where else does it go?—I felt sure that this would arise, because it generally does arise. May I put it this way? The wording of this statement is very careful. I always make the wording very careful. I say "Since A will not purchase A + B, a proportion of the product at least equivalent to B must be distributed by a form of purchasing-power which is not comprised in the description grouped under A". I have not said it must be paid.

4473. I did not want to go on as far as that. Just previous to that you see "Group B", which includes raw material. I assume you mean imported raw material; is that right?—"Group B. All payments made to other organisations (raw materials, bank charges, and other external costs)". Yes; simply what we should call in a company, bills payable at the end of the month.

4474. If they are paid through another business then that business will pay the amount as part of its cost of production to individuals? Is that it?—Yes, I quite understand the difficulty. The real weight to be attached to this undoubted statement of fact—as it stands it is simply a statement of obvious fact—is whether the transfers from one firm to another are financed by either trade credit or from the firm's own credit, let us say its working capital, or by a bank's credit. The exact weight which that has in the whole of the statement depends to a very large extent on that. If the B payments are really financed from working capital then that working capital must, I think, inevitably have been obtained by the process of investment which is criticised under (*b*) in the same précis. That is to say, the whole of the savings which have formed the working capital of that concern must previously have appeared in the cost of production.

4475. That would be true, but I thought the emphasis here was on the phrase "other organisations", and what you are saying has no bearing on that.—I am sorry! I missed that.

4476. I thought the force of the argument here was that it was a payment made by this manufacturing firm to other organisations?—Yes.

4477. Its working capital is required to meet its expenditure under Group A during the period of production just as much under Group B, so what you are saying now does not seem to me to distinguish between Group A and Group B?—Yes, it does, because in Group A you are paying out to the consumer; all the payments under Group B are purchasing power, which, if it was obtained by re-investment, was originally in the hands of the public and never gets back into the hands of the public at all.

4478. Other organisations which were receiving money under Group B are getting back that amount from this first one?—Yes, that is the case; but there is a large amount of purchasing power which is permanently retained purely in the productive system, and never gets out into the consumers' system.

4479. If all firms were united in a single firm would your difficulties be overcome?—That is the obvious remedy for the financial difficulty but not necessarily the right remedy. Even from the purely financial standpoint it is a little difficult to say; you understand a time lag comes in.

4480. You think it would vanish?—No, I do not think it would completely vanish.

4481. Why not?—Because there would be a considerable amount of money being paid out in wages for delayed production, and your hypothesis assumes that the distributed costs of a given week are the total prices of the goods for sale in the same week.

4482. It would be diminished?—It probably would be diminished I think, yes.

4483. Insofar as the fact that you have a differentiation in industry means that some people have to have bank accounts which they pay to others, it means you have to create a certain amount of credit, and really it acts as a revolving fund?—Yes.

4484. If a revolving fund has been established, why do you have to add to it?—If the revolving fund is as large as the total amount of money required to finance the whole of all business from the time the first process takes place to the time the article goes out to the consumer, it is possible—I should not be inclined to admit it offhand—that the question might disappear; but that is certainly nothing like the actual case.

4485. If you once raise the volume of credit to whatever level may be required by your profit in relation to the volume of production you have only to go on increasing it in proportion as production increases?—No; there are all sorts of questions that would still arise. The question of turnover, depreciation, and the fact that the purchasing power of credit, or whatever you like to call it, which has been transformed into price values of fixed assets in the industrial system would in existing circumstances have to enter into the cost of the goods—and cost items of that type would always raise the price of the articles above the amount of purchasing power.

4486. And if in the interval you had to have new machines to replace old ones you would have to have individuals to produce them. How does that differ from any other form of consumption?—Because you are not starting from zero. You are starting from a world as it is.

4487. How does that bear on the matter?—It bears on the matter that you have a tremendous amount of real capital which at the present time is creating prices and which has not contributed anything like that amount of purchasing power.

4488. Do you mean that the receipts of capital are greater than the amount it pays out in dividends?—Yes; that is an obvious statement of fact; the accounts of any company will show that.

4489. *Professor Gregory*: What happens to the difference?—It is represented by the fixed assets in the company which it cannot distribute in the form of money.

4490. It does not distribute it to its shareholders, but if a company earns £100,000 in one year and puts £50,000 towards increasing its plant does not that £50,000 flow out in additional wage payments?—No, that does not happen at all. What really happens is, that during a given year's working it is necessary to create a number of things like tools, or jigs, or something of that sort, which must be charged in the cost of the product to the consumer. The same result is obtained if profits are invested in new tools.

4491. That is perfectly true. What I am asking you is this: When a motor-car company makes new patterns, and so on, it has to pay its workmen for them just as much as for other things; consequently it does flow back to the consumer?—No, it does not flow back if it is charged to its fixed capital. A company at the end of the year shows a profit of, say, £10,000. We all know perfectly well that probably £8,000 of that is in fixed assets. It distributes of that product £2,000 in the form of dividends; it is quite obviously only distributing £2,000 out of £10,000 which appeared in prices.

4492. What happens to the £8,000 which it does not distribute?—That is in the form of fixed assets, which it is incapable of distributing except by getting a creation of credit to distribute them.

4493. It does not want to distribute these things. What you want, to get the equilibrium between the income of the company in the first instance and its outpayments, is that it should pay somebody for making those fixed assets, and if it pays somebody for making those fixed assets it is in effect returning to the stream what it has taken out?—I think I can prove the fallacy of what you are saying, if you imagine that it did distribute the whole of that £10,000 in a year. By your argument, if it did distribute that £10,000, it would be distributing £10,000 more than it had made.

4494. It has made £10,000 profit?—Of course it has made £10,000 assets. This is jumping from the money to the goods all the time: it has made certain prices, things to which you attach prices and which are valued in its assets at let us say £8,000. But the money portion of those assets does not amount to £10,000, and it has already recovered the cost of them from the consumer. It is exactly the same thing as going to a man who has had 30,000 acres of land left him by will and saying "That is £1 an acre; now you have got to pay £10,000 in death duties." The man has not got £30,000. He has got 30,000 acres of land which has a price of £1 an acre. He has not got £30,000.

4495. Nobody ever said that he had?—He is in exactly the same position as the works which show a possible profit.

4496. *Chairman*: I quite follow that, but after all, the manufacturer is himself a consumer of tools; he has spent £8,000 in replacing his worn-out tools by new machines, and in doing that he has given employment to people and has paid £8,000 to another manufacturer. He is a member of the consuming public. The particular commodity he wants is tools. When I buy a box of tools I am a consumer?—Yes, I quite realise the difficulty; I felt this would arise.

4497. I am sure you are prepared for it?—Would you bear with me if I read an article which I wrote, which I think will probably be more lucid?

4498. If it is not too long?—It is not long. It is the shortest form in which this statement can be put, I think. Suppose first that I have £1,000, and I pay that £1,000 away for the purpose of having a house built. We will imagine that the whole of the £1,000 goes in nothing but wages, which does not in any way affect the argument, and we will also suppose that by doing work on something else the workmen could live and save all that they earned by house-building. Suppose now that the workmen who built the house, who collectively would have my £1,000, decided to buy the house, and I agree to sell to them for £1,000. Notice that no question of profit arises. The workmen now have the house, and I have my £1,000 back again. In other words, the workmen have got the house merely by working for it. But these workmen would express it by saying they had paid £1,000 for the house. I am now out of the transaction altogether, and we will suppose I and my money removed to another planet, or we can suppose that I tore up the money when it was returned to me (which is the equivalent of the repayment of a bank loan). Suppose now that the workmen decide to use the house to make and sell shoes. If they carry on the business on orthodox business lines the cost of the shoes will consist of at least three items:—(i) Wages, (ii) raw materials, (iii) rent of factory, i.e., house. We will suppose for the moment that they get their raw materials for nothing, and that the "rent" of the house is nothing but an appropriation of money of such amount that when the house eventually falls down they will have got back their £1,000. It is technically called "depreciation". Since the public get the shoes, clearly they ought to pay "depreciation". Notice, therefore, that neither interest— i.e., "usury"—nor dividends, nor land monopoly are imported into the question. But the simple and vital fact remains that the wages paid during the production of the shoes are less than the price of the shoes by an amount, large or small, which is added to the cost of the shoes before the shoes are sold, representing, at least, "depreciation". This amount which is added to the cost of the shoes represents overhead charges in their simplest form, and in many modern productions overhead charges are between 200 and 300 per cent. of the direct cost of the product. It is *not* profit.*

4499. *Mr. Keynes*: By whom are the overhead charges paid?—They are put into the cost of the product. They are not paid to anybody. They have in previous cycles of production appeared in the cost of the factory.

4500. *Mr. Tulloch*: Part of them represent the depreciation of the house, which I understood you to say would fall down in a certain period?—That is the case.

4501. They have not been paid in that case?—The whole cost of the house was previously paid, in the example, £1,000. Might I just finish and then we will go into it? Suppose in the instance given above that having sold my house to the workmen I had used the £1,000 to build another house, with which I had repeated the identical process. Once again I should have got the same £1,000 back again; once again the workmen would have got into possession of the house, merely by working for it; once again they would have created an overhead charge on anything they manufactured in the house of £1,000; and although there would only be £1,000 of money in existence in respect of the production of the houses there would be £2,000 of prices created in respect of the two houses which would have to be recovered in the price of something sold to the public, and the amount of money and purchasing power would be exactly what it was before the houses were built.

4502. *Professor Gregory*: I do not quite see what you want to prove by this illustration. Is it that there always is a tendency for the quantity of purchasing power to lag behind the volume of output?—That is what I am trying to prove.

4503. Supposing one adopted your scheme, how do you think it is consistent with the retention of the gold standard?—Well, I am afraid I should be sorry to express my opinion of the gold standard. I think it is archaic. I do not think there is any relation between the gold standard and the necessities of the modern world.

4504. Then practically your scheme boils down to this: in the first instance one would have to abandon the gold standard?—I have not considered it from that point of view.

4505. Obviously, if you think the gold standard is archaic, and that the important thing is a continuous system of purchasing power creation —— In the first place I would not agree that you have the gold standard at the present time, in any understandable sense. You have what you call "the gold exchange standard", but it is at least as flexible, though not so desirably flexible as my scheme.

4506. Certainly it is not as flexible as your scheme. Supposing this were the only country in the world to adopt your scheme, obviously it would be inconsistent with the gold standard?—Well, I do not see anything that follows from that. Let me admit it for the sake of allowing you to go on.

4507. You do not think that that might have undesirable repercussions on our position as an international financial centre?—I feel perfectly certain for my own part that if we regard our position solely from a financial point of view and do not regard it from a realistic point of view we shall shortly be in a position in which anybody will be able to do anything with our financial position that they like. I do not pretend to be an historian, but it is, I think, common knowledge that you cannot possibly have a solely financial position in the world. It has been tried several times by Venice and other places, with results that are very well known.

4508. Let us admit for the sake of argument that the advantages of your scheme are so great that one ought to sacrifice such benefits as the gold standard brings one. Supposing under your scheme you could not in fact restrain the price level from rising, what do you think would happen then?—I should not be prepared to admit that there could be any serious difficulty in making any relation between purchasing power and prices that you wish; the thing is simply a question of manipulation of figures.

4509. *Mr. Brand*: You mean you can at the same time increase purchasing power and lower prices?—Undoubtedly; without the slightest doubt.

4510. To any extent?—Yes, except that you would eventually arrive at a state of affairs in which you would get a priority problem if your productive system was not sufficiently capacious to meet your psychological demand.

4511. *Professor Gregory*: But I thought you had admitted—in fact, you yourself stated at the beginning of your evidence—that the defect of ordinary inflation sometimes lay in the fact that as you increase the volume of purchasing power you raise prices. The whole of the validity of your argument turns on the effectiveness of your method or methods of subvention, or subsidy, or whatever you care to call it? Is not that so?—No, I do not agree at all. My primary object in coming here is not to put forward any specific scheme. It is to make the point, which I think is obvious, that the real difficulty is the lack of purchasing power; that the trouble is not in the administrative system, and therefore no gerrymandering of the administrative system, like nationalisation or rationalisation, is going to affect it radically; it is simply lack of effective demand. I am perfectly certain that the combined abilities of this country can get out a scheme which will increase the effective demand to any amount required if it is once thoroughly grasped. The difficulty is lack of effective demand.

4512. *Mr. Brand*: If I am an individual not wanting to do any work, not producing anything, the remedy is to give me some money, in order that I may have effective purchasing power?—I should not deny that. There is no moral question in it at all.

4513. No, no! We are not importing any moral question into it at all. The remedy would be to give all the population plenty of money?—I should not be inclined to deny that.

4514. *Professor Gregory*: Up to what limit?—Up to the combined limit imposed by the capacity of the industrial system to deliver goods and services, conditioned by the willingness of the people to work for the time required.

4515. *Chairman*: Would not the industrial system soon cease to operate?—I do not think so. As far as my knowledge of the industrial system goes, a very large proportion of the people who are employed in the industrial system would be very much better out of it. It is not operating very well just now.

4516. So all the consumers are to be supplied with increased purchasing power. But the consumers are also producers; they produce in order to obtain purchasing power; but they are going to get purchasing power from some other quarter, so they will not produce any more, will they?—The object of having any money system at all interlocked with your wage and salary system is to provide an inducement to produce, undoubtedly, and the problem that you have to meet is that you do not want, as a matter of physical fact, to provide an inducement to produce to the whole of the population at the present time.

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* NOTE.—This argument was subsequently developed by Major Douglas in an article in "The New Age" of 22nd May, 1930.

4517. Overproduction would be the result?—Overproduction would be the result. Further than that, the forcing into the productive system of large quantities of unnecessary people really slows up the transformation of the manual productive system into a machine productive system. As far as I can see, there is nothing whatever to be urged against a machine productive system; that is the march of events, and it really is a question of use of power.

4518. *Professor Gregory*: Let us put it practically. We get off the gold standard, and you start your scheme by arrangement with the Bank of England?—I have not put forward a scheme.

4519. Well, your suggestion. We start by making an arrangement with the Bank of England that any of us who buys anything shall get a bonus of 25 per cent. in the shape of bank credit. When would you stop issuing the tokens?—I have already elaborated the basis.

4520. I want to know how long this is to go on?—The proper price of production which will equate consumption is perfectly easily obtained by the figures of consumption and production.

4521. That is to say, you would continuously increase these subventions so long as there were people unemployed?—I am not interested in the unemployed in the least; I am merely interested in getting rid of the product of the manufacturers.

4522. So long as there was any unused capacity?—So long as there was any unused capacity, yes; which involves the fact that so long as there was any unused productive capacity you could not have "unemployment", until no one wanted further goods.

4523. Supposing you could only get a continuous utilisation of full productive capacity at the expense of rising prices; which would you choose?—That is an important question. Would you mind repeating it?

4524. Supposing you could only get a continuous utilisation, 100 per cent. utilisation, of productive capacity at the expense of rising prices, which would you choose in fact?—Well, I should not admit that that was the dilemma.

4525. But it may be. From your point of view you argue that it is not. It is possible to hold the view that it is desirable to increase the volume of purchasing power even though it involves raising prices. I ask you, supposing your own principles are wrong, but that there is something in the idea of expansion of purchasing power, which would you choose?—Well, that seems to me to be a very abstract question, because it involves a lot of factors that are not stated. There may be conditions, such as the condition of a country at war, in which production at any cost, raising prices or otherwise, might be——

4526. Normally. You do not want to answer?—I do not want to answer. I do not think it is a necessary state of affairs, frankly.

4527. *Mr. Tulloch*: In paragraph **14** of your statement in order "to indicate the divergence between the policy which has been pursued in this country and the United States since 1920", you refer to the tremendous increase in the deposits of the American banks and the very small increase in the deposits of the banks in this country. I should like to hear from you what is the divergence between the two policies which has produced these tremendous deposits in the United States and the paucity of deposits in this country?—Broadly speaking, I should say the result was due to the fact that there is far less insistence on collateral security in American banking than there is in British banking.

4528. And that, you think, would produce the larger deposits?—Undoubtedly.

4529. *Professor Gregory*: Banks must have some assets, even in America?—Yes; they have the assets of the real credit of the community, which in their case is based on knowledge of character and other capacities of the people with whom they are dealing.

4530. *Mr. Brand*: I suppose the German banks have that?—Yes, undoubtedly.

4531. *Sir Thomas Allen*: You advocate the creation of communal credit against bank credit?—Yes.

4532. *Mr. Lubbock*: I would like to be quite clear about the £100 motor-car; the concrete instance. As I understood it, at the end I, the purchaser of the motor-car, had a credit in my bank for £25, and my bank had a credit in the Treasury books for £25?—Yes.

4533. Can the bank draw that from the Treasury if it wishes to do so? Would you allow the Treasury to print notes and issue them to the bank, and the person with the credit to get them from the bank?—If it were required. Of course, the number of notes required would depend upon the volume of business which was conducted.

4534. I, having that credit in the bank, might wish to withdraw notes from the bank to make a purchase?—If you wanted, you could have the notes.

4535. So really, in effect, I should have bought the motor-car for £75 of my own money and £25 supplied by the Treasury viâ my bank?—Yes, and that £25 is the general credit of the country.

4536. Would that system apply to other purchases? If I go to my baker and buy bread it would hardly operate then, would it?—I do not wish to place too much insistence on this particular form of mechanism which we are discussing; it is only an exhibit.

4537. One desires to bring the matter down to concrete fact?—Yes. I think the result would be that if you applied that sort of thing to a particular industry or a particular commodity you would free a considerable amount of purchasing power which would be applied to the purchase of other commodities. The result would be that in the first place the unrestricted tendency would be for the prices of those commodities to rise, and you would then have to apply the same thing to the other commodities.

4538. So there would be a rise in price?—There would be a rise in price in the ones to which the scheme did not apply.

4539. You would gradually extend it?—Yes. The ultimate general result would be that you would be applying a certain proportion of credit—and by hypothesis increasing the credit of the country—to a reduction of the price level.

4540. You have just stated that people in industries where the rebate did not apply would find that their prices were rising?—To begin with, if you started by applying it to one instance.

4541. Would they come down again?—No; you would apply the question of reducing prices to them.

4542. But you could not reduce prices; you could give a rebate to make it easy for a purchaser to buy, but *ex hypothesi* the price has already been raised? No; the price has been raised according to the second canon of the price system, which is, that the price of an article is what it will fetch; that is why the prices have risen; but the first canon is the one to which the subsidy is applied, that is to say, the cost of production and the cost of production of those articles would not necessarily have risen.

4543. You would have at the outset to select certain industries to which the subsidy should apply?—No, not necessarily. One method by which it could be done would be to publish a certain definite discount rate which would apply to all commodities right away, and you could apply the credit appropriation to the selling of those commodities at that percentage of the cost of production.

4544. That would not apply to my loaf of bread?—Yes, it would.

4545. *Chairman:* We are much obliged to you, Major Douglas, for coming this afternoon.—I am very glad, Sir.*

(*The Witness withdrew.*)

(*Adjourned till to-morrow, 2nd May, 1930, at 4.30 p.m.*)

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* NOTE.—The following note was subsequently furnished by Major Douglas as an appendix to his evidence:—

The general principles required of any financial system sufficiently flexible to meet the conditions which now exist and to continue to reflect the economic facts as these facts change under the influence of improved process and the increased use of power, are simple and may be summarised as follows:

(*a*) That the cash credits of the population of any country shall at any moment be collectively equal to the collective cash prices for consumable goods for sale in that country (irrespective of the cost prices of such goods), and such cash credits shall be cancelled or depreciated only on the purchase or depreciation of goods for consumption.

(*b*) That the credits required to finance production shall be supplied, not from savings, but be new credits relating to new production, and shall be recalled only in the ratio of general depreciation to general appreciation.

(*c*) That the distribution of cash credits to individuals shall be progressively less dependent upon employment. That is to say, that the dividend shall progressively displace the wage and salary, as productive capacity increases per man-hour.

It seems quite possible that the form of organisation which would easily adapt itself to the embodiment of the foregoing principles would be that of the limited company. "Great Britain Limited" as a beginning for the "British Empire Limited" might form an organisation in which natural born British subjects would be bond holders. An elaboration of this conception would enable a transition to be made without shock and without any alteration in the existing administration of industry.

C. H. DOUGLAS.

TWENTY-FIFTH DAY.

Friday, 2nd May, 1930.

Present:

The Rt. Hon. LORD MACMILLAN, *Chairman.*

Sir THOMAS ALLEN.
Mr. ERNEST BEVIN.
The Rt. Hon. LORD BRADBURY, G.C.B.
The Hon. R. H. BRAND, C.M.G.
Professor T. E. GREGORY, D.Sc.
Mr. J. M. KEYNES, C.B.
Mr. LENNOX B. LEE.
Mr. CECIL LUBBOCK.
The Rt. Hon. REGINALD McKENNA.
Mr. J. FRATER TAYLOR.
Mr. A. A. G. TULLOCH.

Sir FREDERICK LEITH-ROSS, K.C.M.G., C.B.
Mr. G. ISMAY, *Secretary.*

Mr. ARTHUR PUGH and Mr. W. MILNE-BAILEY, representing the Trades Union Congress General Council, called and examined.

STATEMENT OF EVIDENCE (PART I) SUBMITTED BY THE TRADES UNION CONGRESS GENERAL COUNCIL.

1. The Trades Union Congress represents over 3,670,000 workers organised in 202 Trade Unions, which include all the largest Trade Unions in the country. It is the central organisation accepted by Governments, and by the central Employers' Organisations, as representative of the Trade Union movement as a whole. In this capacity its representatives act as delegates and advisers to the International Labour Conferences, as members of Government Commissions and Committees and as members of such bodies as the Railway Rates Tribunal, Railway National Wages Board, etc. Its General Council also participates in the scheme of joint consultation and co-operation that has been arranged with the National Confederation of Employers' Organisations and the Federation of British Industries for the discussion of a wide range of subjects connected with the economic life of the nation. We mention these facts in order to show the very close and direct interest we have in such problems as that with which the Committee on Finance and Industry is concerned. That it is also a very practical interest we hope to show in the course of our evidence.

2. The post-war period has been one of profound difficulty for the Trade Union movement as for most sections of the community. The extremes of prosperity and depression have been crowded into these eleven years. Since the end of 1920 the workers have had to endure continuous unemployment on an unprecedented scale, and those in the basic industries have suffered, in addition, a serious diminution in their standard of life. We propose to show in some detail the effects of the depression in reducing the standards built up by generations of arduous labour and intense struggle, and to indicate what appears to us to be the connection between this calamity and the currency and credit policy pursued during the post-war period. We do not propose in this part of our evidence to suggest any remedies for the maladjustments we believe to exist, but we hope to submit further evidence, dealing with that aspect of the question, at a later date.

3. *The Post-war Boom.*—From the workers' point of view it matters comparatively little whether we take 1914 or 1920 as the starting point for a comparison of prosperity and depression. Although 1920 is commonly looked upon as the peak year of prosperity in our history (and money wages certainly reached a point in that year, or early in 1921, never before or since attained), the actual real wage of the workers was, on the average, very little higher then than it was in 1914. According to the Ministry of Labour the general level of money wages in December, 1920, was 170% to 180% higher than in July, 1914, and the cost-of-living at the same date was about 170% higher than in July, 1914 (176% in November, 1920, and 169% in December).

There was very little difference in the average rate of unemployment in the two years (3·3% in 1914 and 2·4% in 1920) although at the actual dates cited above, viz., July, 1914, and December, 1920, the comparison is naturally in favour of the former (2·8% in July, 1914, and 6·1% in December, 1920). Thus, it is clear that whatever other sections of the community may have reaped a golden harvest in 1920, the workers on the average were only very little better off than they were in 1914. That is as far as the official statistics of wage rates take us, though if earnings were computed the increase by 1920 would doubtless be somewhat greater. It will not be necessary to go into the history of labour's struggle, during the war-time inflation, to make wages overtake prices; the circumstances were entirely abnormal and the net result at any rate was that real wages did finally reach a point higher, but not considerably higher, than just before the outbreak of war.

4. A few details regarding the position of labour in 1920 will be of interest in this connection.

Wages, 1920.—The following were the weekly wage rates observed in 1920 in some of the principal trades:—

	£	s.	d.	
Agriculture	2	6	10½	
Coal Mining[*]	0	19	2	per shift. [†]
Engineering Fitters	4	9	7	
Engineering Labourers ...	3	10	9	
Shipbuilding Joiners	5	1	4	
Shipbuilding Labourers ...	3	10	5	
Boot and Shoe: Men ...	3 3	5 8	0 to 0	
Boot and Shoe: Women ...	2	0	0	
Bakers	4	2	11	
Cabinet Makers	5	1	3	
Compositors	4	13	3	
Iron and Steel[*]	5	8	5	
Bricklayers	5	0	10	
Builders' Labourers	4	7	8	
Cotton, 200% above pre-war.				
Wool Textiles, about 200% above pre-war.				
Able Seamen	14	10	0	per month.
Locomotive Drivers	4 5	8 6	0 to 0	
Permanent Way Labourers ...	3	11	6	
One-horse carters	3	8	5	
Dock Labourers	0	16	2	per day.
Local Authority Labourers ...	3	14	8	

Unemployment, as has been mentioned, was increasing by December, as the peak point of the boom was actually reached about the middle of the year, but the average percentage of unemployment for the year was only 2.4%. Retail prices were very high, the peak of the cost-of-living being reached in November, at a level 176% higher than in 1914. Food prices in the same month were 191% above their pre-war level.

5. With earnings a little in advance of retail prices, it will be seen that the position of the workers was, on the average, relatively good. The average, of course, masks the individual variations which in the matter of wages were important. In the Building trade, for instance, wage rates were from 150% to 175% above pre-war for craftsmen, but 224% for labourers. On the railways the corresponding increase was about 265% for certain grades of porters but only 135% for certain classes of foremen. Engineering craftsmen had secured advances of only 120% to 130% while labourers were 210% above the 1914 level. Wool Textile workers had wages of 180% to nearly 220% over the pre-war level while Cotton Operatives had advanced by no more than 160%, Hosiery workers only 125%, and Pottery workers only 108%.

6. In short, some industries did not keep pace with the cost-of-living, while others, and unskilled workers generally, obtained substantial improvements even in real wages. The industries in which skilled workers especially failed to attain the pre-war level of real wages were in the main those depending on export trade. This fact is of considerable importance in view of later events.

7. The number of working days lost owing to industrial disputes in 1920 was approximately 26·6 millions. Judged by the number of workers involved, 76% of the disputes were over wage increases. This was natural enough as the year was one of rising prices leading to demands for increases, the rise in the cost-of-living between 1st January and 1st November being no less than 22½%. Wage questions as a whole accounted for 81·5% of the disputes (measured in the same way).

8. It may be noted here that during the 14 years, 1900–1913 inclusive, the average time lost owing to disputes was 7·6 million working days a year, and the rise in the cost-of-living was only 3% over the same period, this increase, which was distributed fairly evenly over the 14 years, being therefore at the rate of 0·2% of the 1900 figure each year.

9. *The Depression*, 1921–23.—The effects of the break in the post-war boom began to be felt towards the end of 1920, the percentage of unemployment rising to 6·1% by December. The real collapse of employment and wages came in 1921 and continued with hardly any alleviation through 1922 and well into 1923. By May, 1921, the percentage of unemployment had reached 23·0, this figure representing over 2,500,000 persons out of work. From that date there was a gradual fall to 1,539,000 (13·9%) in September, with the usual seasonal rise in the winter to 1,966,931 (17·7%) in December.

The average unemployment for the year was 16·6%, representing nearly 1,900,000 persons out of work, throughout 1921. In 1922 unemployment averaged 14·1%, the highest figure being 17·5% in January and the lowest 12·4% in October. In terms of the number of persons unemployed the average was about 1,600,000. There was a further small drop in the figures in 1923, the average for the year being 11·6%, representing approximately 1,300,000 persons unemployed.[*]

10. Thus, during those three years, the toll of unemployment was extremely severe, ranging from 23% of the whole insured population (May, 1921) to 10·5% (December, 1923).

11. *Money Wages* fell during the same period in a sensational manner. According to the Ministry of Labour statistics the average level fell from about 275% of the pre-war level in December, 1920, to about 167·5% in December, 1923, the latter being the lowest level touched throughout the whole post-war period. The fall in the three years was just about 40%. For comparison in terms of money, and as illustrating the especially heavy decline in wage rates in the basic industries, actual rates for the trades already cited are given:—

Wages at the end of 1923.

The following were the rates observed at the end of 1923, with the percentage reduction compared with the end of 1920.—

		% fall from 1920.
Agriculture	28s. ...	40%
Coal Mining[†]	10s 3¼d. per shift.	46½%
Engineering Fitters	55s. ...	38½%
„ Labourers ...	40s. 1d. ...	43½%
Shipbuilding Joiners ...	50s. 9d. ...	50%
„ Labourers ...	38s. 5d. ...	45½%
Iron and Steel[†]	62s. 10d. ...	42%
Cotton	86% above pre-war.	38%
Wool Textiles	80% to 90% above pre-war.	38%
Able Seamen	£9 per month.	38%
Boot and Shoe—Men ...	57s. to 60s.	12%
„ Women ...	36s. ...	10%
Bakers	63s. 9d. ...	23%
Cabinet Makers	71s. 10d. ...	30%
Compositors	73s. 9d. ...	21%
Bricklayers	69s. ...	32%
Builders' Labourers	51s. 7d. ...	41%
Locomotive Drivers	72s. to 90s.	22%
Permanent Way Labourers	49s. ...	31½%
One-horse Carters	51s. 6d. ...	25%
Dock Labourers	10s. 5d. per day.	36%
Local Authority Labourers	51s. 5d. ...	31%

It will be observed that the average fall of about 40% in money wages was not spread equally over all occupations, the so-called unsheltered trades—mainly the basic, heavy industries—suffering more than those not subject to foreign competition.

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[*] Earnings.

[†] First Quarter of 1921. Stoppage in last Quarter of 1920.

[*] These figures would be slightly increased if Northern Ireland were included, but statistics for Northern Ireland are not available for the period prior to December 1924.

[†] Earnings.

12. This is shown in another form in the statistics of the aggregate amount of changes in full-time weekly wages, issued by the Ministry of Labour. In 1921 the aggregate fall in full-time weekly wages was no less than £6,061,000, and in 1922 £4,210,050, with a further £317,000 in 1923. Of these amounts the unsheltered trades bore more than their share, as the following figures show :—

Aggregate Reduction and Reductions per head of full-time weekly wage rates.

	1921.		1922.	
	Aggregate £ mill.	*Per Head £.*	*Aggregate £ mill.*	*Per Head £.*
All Industries ...	6·06	0·82	4·21	0·55
Coal, etc.	2·59	2·01	0·51	0·46
Metal and Shipbuilding. ...	1·53	0·77	1·65	0·85
Textile	0·65	0·64	0·42	0·41
Chemicals, Glass, etc.	0·15	0·53	0·14	0·50
Clothing	0·04	0·11	0·16	0·23
Paper, etc. ...	0·05	0·25	0·07	0·35
Building	0·30	0·67	0·39	0·76
Public Utilities ...	0·18	0·49	0·21	0·52

It must be emphasised again that these figures are based on wage rates, and not on earnings. If earnings could be ascertained they would undoubtedly show a higher level than is here indicated.

13. *Cost of Living.*—During the same period 1921–23 the cost of living also dropped in a sensational manner. On 1st November, 1920, it was 176% above pre-war but by 31st December, 1923, it had fallen to 77% above the July, 1914, level.

This was a drop of no less than 36%. The greater part of this fall, as in the case of wages also, occurred in the two years 1921 and 1922. In actual fact the drop in the wage level at first lagged behind the fall in prices, with the result that real wages (excluding the effect of unemployment) reached their highest point at a time when the depression was well under way. If the effect of unemployment in reducing the annual purchasing power of the worker is taken into account the decline in real wages (as far as statistics based on wage rates show) was most pronounced in 1921, after which it fell further in 1922 and 1923.

14. *To sum up these changes*, it may be said that in 1921 and 1922 particularly, there was an enormous drop in money wages. This continued to a further small degree in 1923, the fall at the end of the latter year being about 40% as compared with the level at the end of 1920. There was a similar fall (not quite as great) in the cost of living, which fell more rapidly than money wages at first. There was, however, a great depletion of the workers' purchasing power owing to the appalling incidence of unemployment (17% in 1921, 14·3% in 1922, and 11·7% in 1923).

15. These reductions in money wages were not brought about without serious industrial conflict. In 1921 the total number of working days lost owing to disputes was the highest recorded until that date, being no less than 85,872,000, compared with 26,568,000 in the previous year, and 7,600,000, the average per year for the fourteen years 1900–1913. A further 19,850,000 working days were lost in disputes in 1922, and 10,672,000 in 1923. Taking as the basis of calculation the number of work-people involved, no less than 94·9% of the disputes in 1921 were over wage decreases, while wage questions as a whole accounted for 96·3% in that year, 40·2% in 1922, and 42·9% in 1923.

16. The chief dispute in 1921 affected coal mining, where there was a three months' stoppage of over a million miners, involving a loss of about 70 million working days. This ended in a settlement providing for large wage reductions. There was a general stoppage in the cotton trade, involving 375,000 workers, and this also arose out of a claim for large wage cuts. About 10,000 shipyard joiners were on strike from 1st December, 1920, to August, 1921, the issue being a wage reduction in this case also.

17. In 1922 the chief dispute was in the engineering trade, which involved a quarter of a million workers and lasted three months, but this was only indirectly connected with wage changes. In addition to the 13 million working days thus lost, nearly 3½ million working days were lost owing to shipbuilding disputes arising out of wage reductions and more than a quarter of a million owing to wage reductions in the printing trades.

18. It will be observed that these large scale disputes arose almost entirely in those industries where wage reductions were most drastic.

19. *The* 1924 *Revival.*—The major part of the fall in wages and prices, together with the grave incidence of disputes owing to wage reductions, occurred in 1921 and 1922, but the tendency continued, though to a less extent, during 1923. In 1924 a slight revival took place. The percentage of unemployment in the United Kingdom fell to 10·3 (average for year). This was the lowest figure reached, until that date, since the depression started, although it is to be remembered that equally substantial falls had taken place in 1922 and 1923. What is more to the point is that wage rates showed an upward tendency for the first time since 1920, the level at the end of the year being 70% to 75% above pre-war, compared with 65% to 70% at the end of 1923. Aggregate full-time weekly wages, after falling by £10½ millions in 1921–23, increased by over half a million pounds during 1924, the groups chiefly affected being coal mining, building, transport, and metal trades.

20. The cost of living, after falling rapidly as already described, rose again in 1924, being 81% above pre-war at the end of the year, compared with 77% at the end of 1923. The time lost owing to disputes in the same year fell to the lowest level attained until that date, since 1918, 8,424,000 working days being lost compared with an average of 38,800,000 per year during the three years 1921–23. Significantly enough 54·6% of the disputes (measured by the number of workers involved) were due to claims for wage *increases*, as against 0·5% in 1921, 0·9% in 1922, and 3·1% in 1923.

21. 1925–29.—In 1925 the industrial advance of 1924 was not continued. After the usual seasonal rise in the percentage of unemployment in the winter of 1924–25, the spring and summer figures fell very little, being 10 9% in April and May compared with 10·7% in December, 1924, 11·2% in January, 1925, and 11·3% in February, 1925. The April and May figures in 1924 were 9·7% and 9·4% respectively ; these, with 9·3% for June, 1924, were the lowest recorded from 1921 to that date.

22. By August, 1925, the percentage had reached 12·1 but thereafter a steady decline took place until April, 1926, when a new low level of 9·1% was reached. The level then jumped to 14·3% in May, 1926 (excluding those on strike) but thereafter it declined steadily to 8·7% *in May*, 1927. *This was the lowest figure in the entire period of the depression.* From that point it rose again, with summer decreases, to 12·1% in November, 1928 ; 12.2% in January and February, 1929 ; and 13·1% in February, 1930. Part of the recent increase is due to administrative changes, which have added to the number recorded without any real addition to the volume of unemployment being thereby indicated. Nevertheless it would seem that the trend of unemployment has again been upward since May, 1927. The changes recorded are best shown graphically but the following spring and winter figures may be given as they illustrate the position very briefly.

Percentage of Insured Workers Unemployed—United Kingdom.

	May.	*November.*
1924	9·4	10·8
1925	10·9	11·0
1926	14·3*	13·5*
1927	8·7	10·0
1928	9·7	12·1
1929	9·8	10·9

23. *Wages* during the years 1925–30 have shown very little tendency to change. The general level of wage rates, according to the Ministry of Labour figures, remained at about 75% above pre-war during 1925 and 1926 but there was some decline in 1927 when the level was 70% to 75% above pre-war. It has remained at about the same figure since. Professor Bowley's Index Number of Wages* (based on 1924=100) has changed as follows :—

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* Effects of National Strike.

Wages.

Prof. Bowley's Index Number	(1924=100).
1925	101
1926	100
1927	101
1928	100
1929	99

Whichever figures we take, it is clear that there has been a very slight decline in money wages since 1927. This is also shown in the statistics of changes in aggregate weekly wages published by the Ministry of Labour. After a net increase of £554,000 in 1924 as already recorded, there was a net decrease of £78,000 in 1925, a net increase of £49,000 in 1926, a net decrease of £358,000 in 1927, a net decrease of £142,000 in 1928 and a net decrease of £79,000 in 1929.

24. The cost of living declined continuously during the period 1925–29 after its slight rise in 1924. From 181 (July, 1914=100) in December, 1924, it fell to 166 at the end of 1929, the yearly averages being :—

1925	176
1926	172
1927	167·5
1928	166
1929	164

25. *Disputes.*—The total number of working days lost in 1925 owing to industrial disputes was 7,950,000, the lowest figure from 1918 to that date. In 1926, however, the highest total on record was reached, with 162,230,000 working days lost, mainly in the Coal stoppage lasting about seven months, and the National Strike. In 1927, on the other hand, the lowest recorded total was reached with 1,170,000 working days lost, the 1928 total being only a little higher with 1,390,000. In 1929 the figure rose to 8,280,000.

26. Judged by the number of workers involved, 54.2% of the disputes in 1925 concerned demands for wage *decreases* (compared with 54·6% in 1924 for wage *increases*). Only 9·7% concerned applications for wage increases in 1925, 0·3% in 1926 and 5·2% in 1927. Thus the cause of disputes was the demand for wage reductions in 95% of cases in 1921, 33% in 1922, 27% in 1923; for wage increases in 55% in 1924, for reductions again in 54% in 1925, 39% in 1926, 20% in 1927, 19% in 1928 and 84% in 1929. The chief dispute in these years was, of course, the coal stoppage in 1926 and the sympathetic national strike in connection with it. This combined stoppage accounted for 161 million lost working days, and was due to the coalowners' demands for drastic wage reductions in 1925. The next most important stoppage was in the cotton industry in 1929, when 388,000 workers struck against wage reductions and over 6½ million working days were lost.

27. The mass of detailed statistics thus presented leaves a confusing impression, and it will therefore be advisable at this point to summarise the course of events.

Money Wages.	*Unemployment.*	*Cost-of-Living.*	*Disputes*
1921			
Fell rapidly; £6 millions decrease in weekly wages.	(Increased rapidly to 23% May). Then fell to 17½%.	Fell rapidly from 165% above 1914 to 99% above 1914.	85.9 mill. working days lost. 95% disputes (measured by workers involved) concerned wage decreases.
1922			
Fell rapidly; £4.2 millions decrease in weekly wages.	Fell to 12½%.	Fell rapidly to 80% above 1914.	19.85 mill. working days lost. 33% over wage decreases.
1923			
Fell slightly. £0.3 millions decrease in weekly wages.	Fell to 10½%.	Fell slightly to 69% in summer and rose again to 77% in December.	10.7 mill. working days lost. 27½% over wage decreases.
1924			
Rose somewhat. £0.55 mill. net increase in weekly wages.	Fell to 9.2% in May, rose to 10.8 in Oct. and fell to 10.6 in Dec.	Rose to 81% above 1914 in Dec. after seasonal fall to 69% in May.	8.4 mill. working days lost. 55% due to claims for wage increases.
1925			
Remained steady. £0.08 mill. net decrease in weekly wages.	Remained steady. Percentage ranged from 11.9 to 10.1.	Remained steady, with seasonal fall to 72% above 1914 in June and recovery to 77% in Dec.	8 mill. working days lost. 54% over wage decreases.
1926			
Remained steady. £0.05 mill. net increase in weekly wages.	Increased following National Strike.	Fell somewhat, on the whole.	162 mill. working days lost. Practically all due to demand for wage decrease.
1927			
Fell slightly. £0.36 mill net decrease in weekly wages.	Fell steadily (apart from seasonal fall in summer) to 9.8% in Dec.	Fell steadily (apart from seasonal fall in summer) to 69% above 1914.	1.2 million working days lost. 20% due to demands for wage decreases.
1928			
Fell slightly. £0.14 mill. net decrease in weekly wages.	Increased (apart from seasonal fall in summer) to 12.1% in November.	Remained steady (apart from seasonal fall in summer).	1.4 million working days lost. About 19% over demands for wage decreases.
1929			
Fell slightly. £0.08 mill. net decrease in weekly wages.	Fell slightly (apart from seasonal fall in summer) to 11.1% in Dec.	Remained steady (apart from seasonal fall in summer).	8.3 mill. working days lost. 84% over demands for wage decreases.

28. Certain observations may be made on this experience. The first is that the level of money wages, unemployment, and retail prices was seldom steady during these years. It was constantly fluctuating, up or down. In the second place the years of most marked fluctuation, 1921–26, were the years most marked by industrial disputes.

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* London and Cambridge Economic Service Bulletin.

When the level of prices was falling there followed a large proportion of disputes over demands for wage reductions. When prices rose in 1924 the majority of disputes were due to claims for wage increases. It is not possible to establish this inference from observation of such a short period. Moreover, the correspondence is only approximate, for wage demands, on one side or the other, may not follow other changes immediately; there is usually a time lag. But there is a prima facie case for concluding that fluctuations in prices and employment, if on a considerable scale, are frequently accompanied by industrial disputes arising from the necessity for the readjustment of wages. Wage changes may be, and often are, due to other causes, and disputes may arise in these cases, but it seems clear that many disputes are caused by the readjustment of the wage level, up or down, as prices fluctuate. Consequently it would seem that if stability of the level of prices could be obtained, there would be a diminution of industrial disputes. If retail prices alone were concerned this position might be met by the universal adoption of cost-of-living sliding scales, which would affect the adjustment of wages automatically. That the incidence of disputes has been less in industries having such sliding scales seems clear, but there are other important elements in the general situation. From the workers' point of view the cost-of-living is a vital factor in relation to his money wages, but from the employers' point of view the level of wholesale prices is far more important. The price at which he buys his raw materials, his fuel, his machinery, etc., and the price at which he can sell his finished product are what concern him. If the level of wholesale prices is declining fairly rapidly he is faced with the position that he has to market his goods at a lower price level than that at which he has already bought his raw materials, etc. Hence his need to cut prices, in order to market his goods, with the result that he has either to face a reduction in anticipated profits or, in extreme cases, sell at an actual loss. If such a situation persists he will, if it is possible, seek to reduce his production costs, and very often the only factor in these costs that he can control is the labour cost. A reduction in labour cost does not necessarily mean a reduction in wage rates. The Ford Motor Company has found that where wages are highest, labour costs are lowest, and vice versa,* and modern experience often shows that wage reductions are not the only means of reducing wage costs. In the past, however, and very often at the present time, the employer turns to wage rates immediately a reduction in wage cost is sought. Even where other means are attempted first, a reduction in wage rates has sometimes to be sought in the end, and the employer is apt to justify this by pointing out that as the price level is declining the level of real wages may be maintained even if wage rates are proportionately reduced. This situation may lead to a dispute taking place, because even where it is true that real wages are not reduced, a fall in money wages is always bitterly opposed by the workers unless it occurs under the operation of a cost-of-living sliding scale to which they have agreed.

29. A reduction in the cost of living does not take place all at once. It is a gradual affair, and the worker gets used to the slightly higher standard of living almost imperceptibly. A fall in his money wages therefore seems to be, and in the circumstances is, a real loss.

30. Stability of prices averts this difficulty and wage adjustments can then be based on other considerations such as productivity, the state of trade, etc. How far prices have been from remaining stable is shown in the foregoing summary and in the following table of wholesale prices :—

Wholesale Prices 1920–29.

Board of Trade Index Number, 1913=100.

1920 ...	307·3	1925 ...	159·1
1921 ...	197·2	1926 ...	148·1
1922 ...	158·8	1927 ...	141·6
1923 ...	158·9	1928 ...	140·3
1924 ...	166·2	1929 ...	136·5

It will be observed that with the exception of 1923–25 there has been an almost continuous fall. In 1921–22 the drop was very rapid and again in 1925–26 it was severe. This decline in the wholesale price level has not yet ceased.

31. It will also be noted that up to 1925 the course of retail prices followed fairly closely the course of wholesale prices. If the figures are examined in greater detail it is seen that wholesale prices rose higher in 1920 and fell somewhat more precipitously in 1921–22, but the general trend was naturally similar for both. From the beginning of 1925, however, retail prices fell only slightly while wholesale prices continued to decline very noticeably. While this disparity is a fact of great importance, for it applies to nearly all industrial nations, at the present time, it is of interest to us from the point of view of the relation between money wages and real wages. Between the end of 1925 and the end of 1929 wholesale prices declined by about 8·9% but the cost-of-living fell by only 0·5%.* Such a fall in wholesale prices, acting as a drag on business, might well impel employers to press for wage reductions, but this would involve not merely a fall in money wages but an actual decline in real wages. In short, a substantial fall in wholesale prices may lead to disputes in two ways :—

(*a*) it may in any event lead to demands for reductions in money wages, with consequent resistance from the workers;

(*b*) if the cost of living does not fall proportionately to wholesale prices, a definite lowering in the standard of real wages may be caused, and trouble will not be averted even if there is a cost of living sliding scale.

Thus, the recent fall in commodity prices, unaccompanied by a corresponding fall in cost of living is particularly dangerous, since it tempts employers to press for reductions in wages which involve reductions in the real standard of living.

32. It would appear for these reasons that the course of wholesale prices is a dominating factor from the point of view of the employer. This has been stressed by employers in many of the wage disputes that have occurred. It will be observed that the periods of most acute industrial conflict in the post-war years were 1921–22 and 1925–26, and these were also the periods of most rapidly falling wholesale prices.

33. The engineering troubles of 1921 were largely attributed by the employers to the slump in prices. In a pamphlet they issued, "The Present Economic Position of the Engineering and Allied Industries," p. 15, they referred to the slump of 1921 and said, "Just at the time the limit was being reached, the fall of wholesale prices already referred to was beginning. Manufacturers and merchants, holding of necessity great stocks of material at high prices, largely paid for out of borrowed money, were unable to repay the loans from the banks, and the latter being tied up in this way were unable to provide accommodation for others who were just needing it for their enterprises, and who frequently, in consequence, did not know where to turn for the wherewithal to meet their weekly wage bill." The alternative presented was either a drastic reduction in wage rates or a large increase in unemployment. (p. 24).

34. Since the fall in wholesale prices beginning in 1920 was due to the policy of deflation deliberately pursued, it is small wonder that industrialists generally have complained bitterly that monetary policy is decided without adequate consideration of the effects on industry. The inevitable result to industry of the further deflation carried out on the return to the Gold Standard in 1925 has similarly been commented on in trenchant terms by Mr. Keynes in his pamphlet "The Economic Consequences of Mr. Churchill." We are certainly of the opinion that this policy was largely responsible for the coal dispute and the national strike in 1926. It is a matter for profound regret that the Government entered upon this policy without consultation with organised labour. In view of the close connection between the monetary factor and industrial conditions we hold the view very strongly that decisions of this kind, which inevitably affect industry, should not be taken without consultation with the Trade Union movement.

35. We do not wish, however, to go into the theoretical aspects of this question. We note that the period of a rapidly falling level of wholesale prices has also been the period of acute industrial disputes, lower wages, and unemployment. The general price level is an expression of the relation between the volume of goods and the volume of money, and we therefore ask that two questions may be earnestly considered :—

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* Times, 8th March, 1930.

* Statist, 15th March, 1930, 448.

(i) Would stabilisation of the general price level help to avert these evils ?

(ii) If so, is such stabilisation of the general price level practicable, without substantial ill-effects in other directions, by deliberately adapting monetary policy to this end ?

Our own view is that stabilisation of the general price level is extremely desirable, if it can be attained without resulting in worse evils than those it seeks to rectify. If these great fluctuations in the level of general prices were obviated the entire industrial system would in our view benefit. Whether the general price level can be stabilised or not is a highly technical problem upon which we offer no opinion at this stage. We raise the matter for the Committee to consider because we feel it is one of the most important questions that remain to be determined.

4546. *Chairman*: My colleagues and I are delighted this afternoon that we have the advantage of the attendance of gentlemen representing the Trades Union Congress, Mr. Pugh and Mr. Milne-Bailey. It might be useful if you would kindly tell us the precise nature of your office in the Congress, Mr. Pugh?—(*Mr. Pugh*): I am here as a member of the General Council of the Trades Union Congress, Sir; it is in that capacity that I appear before you to-day.

4547. And Mr. Milne-Bailey?—(*Mr. Milne-Bailey*): I am Secretary of the Research and Economic Department of the Trades Union Congress.

4548. I gather from the précis which you have sent us, and which is marked Part I, that this part of it is intended to be rather an analysis or diagnosis of the present position, and that you propose to postpone your suggestions as to remedies to a later stage?—(*Mr. Pugh*): Yes, Sir; that is so.

4549. In the second paragraph, you say, " We do not propose in this part of our evidence to suggest any remedies for the maladjustments we believe to exist, but we hope to submit further evidence, dealing with that aspect of the question, at a later date."—That is so, Sir.

4550. So what you have done, and what we must appreciate is this: You have subjected recent statistics of prices, of labour disputes and of unemployment to close analysis in order to see whether you can detect from that analysis the causes which are at work. That may be said roughly to be the purpose of this first part of your evidence?—I think so; that is a very good description of our work.

4551. I may say that we have, of course, all read this analysis, and it certainly establishes very clearly that labour disputes, which in turn are related to financial maladjustments, are associated with alterations or fluctuations in the price levels. That again, is what you intended to bring out, is it not?—Yes, Sir. We think that our research of the facts certainly tends to show that that is the case.

4552. The trouble is this, is it not, Mr. Pugh, that if you have violent oscillations in price levels then you have two processes at work; on the one hand, when prices go down you have unemployment resulting, and disputes which originate in wage reductions?—That is so.

4553. On the other hand, when prices go up you have the converse process taking place of disputes arising in consequence of the workers demanding a larger share by way of wages in the product of industry?—Unless you have, as we have in the iron and steel industry, some kind of machinery which regulates wages according to the prices. Of course, that is speaking for an individual industry, rather than looking at it from the general industrial standpoint.

4554. If you have an agreement for a sliding scale, then automatically the situation adjusts itself?—So far as that particular industry is concerned.

4555. And insofar as the fluctuations in price level are the cause of the trouble?—Yes.

4556. *Professor Gregory*: In the iron and steel trade does the wage rate fall indefinitely, or do you stop it at a definite point?—No. In the early days there were both plus and minus factors; that is not so to-day; the increased prices, due to war conditions, would eliminate that; to-day the scale percentage is purely a plus factor, and generally speaking we regard what we call the standard rate as the minimum.

4557. You do not go below that? You have a minimum?—Yes; our standard wages, which are the general rates of wages that operate, under whatever system they may be arranged, really represent the minimum, and the sliding scale percentage is a plus factor, and, while it works up and down above the standard, the standard wage represents zero.

4558. *Chairman*: Of course, in all sliding scale systems the point is where you start to apply the standard?—Yes, that is so; but to start a sliding scale you take your wages at a given date, you ascertain your prices at the same date, and the two represent the basis. One is the wage factor in relation to the basis of the scale. That is to say, so long as the price is at the ascertained figure the standard wage operates. If you were going below the standard wage, and prices dropped below the ascertained price at the start of your scale, then it would be a minus factor in relation to the standard wage, but, as I said in reply to one of the members of the Committee, to-day, the percentage on the scale, is an addition to the standard wage.

4559. At the present moment have you any figures as to the number of employees who are covered by collective agreements, sliding scale agreements?—No, Sir, I have not them here; not anticipating your question, I am afraid I am not supplied with them, but I think they are readily ascertainable.

4560. I have had some inquiry made, and I find it is somewhere in the region of two and two and a quarter millions?—(*Mr. Milne-Bailey*): Are you referring to cost-of-living sliding scales?

4561. Yes?—Mr. Pugh is referring to sliding scales based on the cost of the product. (*Mr. Pugh*): Yes, I am confining myself to sliding scales based on the price of the commodity produced. I believe the iron and steel industry is the principal industry that operates under that arrangement. Of course, we do not operate under cost-of-living scales.

4562. *Professor Gregory*: Has your system avoided disputes in recent years?—Yes, it has been a great factor in the avoidance of disputes. In the early days, if trade was improving, and prices went up, we used to go to the employers and say " We think we are entitled to an advance of wages." If the converse was the case the employers would say " Prices are down, trade is bad, and we think we are entitled to a reduction." Of course, we had to meet in conference and argue the thing out; it is true we did it without very much trouble; if prices were going up we discussed whether there should be an advance of wages and if prices were going down we discussed whether there should be a reduction; if we failed to agree our machinery, which is well established, provides for a final Court of Reference. On the whole our sliding scale has worked very well; the prices are ascertained from the books of the manufacturers, the thing works automatically, and no difficulty arises. The evidence of that is the enormous reductions that took place between 1920 and about 1925 in some cases; one scale dropped 100 per cent. on a single ascertainment—that is, 100 per cent. on the basis wages. Some of the scales went up to about 195 per cent., one scale, I think, as high as 270, and in the rapid drop in prices following the 1920 boom some scales went down at the rate of from 50 to 100 per cent., but without any trouble as far as the workmen were concerned, because they were accustomed to the process. No doubt, the system has a tendency to minimise disputes, though I do not claim perfection for it.

4563. *Chairman*: It is a useful safety valve?—It is a very useful safety valve; the men understand what is taking place, they know the method applied, they watch it at work, and they accept it for what it is, knowing that it is properly conducted.

4564. I think, perhaps, one of the most interesting things in your analysis is the relationship which you establish between the level of money wages, unemployment, and retail prices. In paragraph 28, after that summarised table of the violent oscillations which have taken place in recent years, you draw attention to those three factors, and to the constant fluctuations that have been going on in those three factors?—Yes.

4565. One thing that causes trouble is that you have certain lags?—Yes.

4566. If you had immediate readjustments, if economic readjustments took place automatically, then I suppose a large part of the difficulty would disappear?—Yes.

4567. For example, if you had a fall, or reduction, in wages coincidentally with a fall in prices, then the purchasing power of the wages theoretically would be the same?—Yes.

4568. But in practice, of course, it is not?—No. Of course, if you could make it at the same time noticeable to those who had the wages to spend——

4569. That is the psychological factor. It is very, very difficult for persons not conversant with economic principles to realise when their wages are going down from, say, £3 a week to £2, that they are just as well off?—It takes a little time for the housewife to appreciate that she has got her goods cheaper.

4570. Of course she is not so well off unless coincidentally with the fall of wages from £3 to £2 the price of commodities comes down in the same ratio?—No.

4571. In practice that does not happen?—No.

4572. Another point you bring out, which is very instructive, is that, from the employers' point of view—the point of view of those who pay wages—the wholesale price is the most important thing, whereas from the point of view of the wage receiver the retail price is the important thing, and if the fall in wholesale prices is not accompanied by a corresponding fall in retail prices, then you at once get trouble, because the person who is paying the wages has less money to pay them with because of the fall in prices; on the other hand, the wage receiver has not got a corresponding reduction in the cost of the commodities in which he deals, and the purchasing power which is handed to him in the shape of his wages is less?—Yes.

4573. These difficulties are probably almost insurmountable, are they not?—I do not know, Sir, that one would go quite as far as to say that. They seem to be insurmountable under our present arrangement, but whether any proper examination of them and endeavour to effect adjustment would be without success entirely, I would not go so far as to say.

4574. One important think would be, would it not, to see that retail prices, if possible, are brought more into consonance with the wholesales prices?—Yes, to whatever extent that was practicable, that would be very desirable to do.

4575. The kind of complaint which we all, as consumers, make, is, for example, if a trade supplies us with clothes, or with food, you see a big drop in the wholesale price, but you do not find it reflected in the price that you have to pay for your clothes or your food?—That, I believe, is one of the complaints in the Yorkshire woollen industry just now. (*Chairman*): I have heard a great deal about that, and have ventured to draw attention to it myself.

4576. *Mr. Lubbock*: You said that in the sliding scale that operates in the iron and steel industry there is a standard wage below which wages do not fall?—Yes.

4577. If there had not been that provision put in would wages be lower to-day than they actually are?—No. If you take the heavy steel trade, in 1914 the scale was plus 11¼ per cent.; at the present time it is 26¼ per cent., and that represents the difference on standard wage as between the pre-War and the post-War period.

4578. *Mr. Bevin*: Your standard is pre-War?—Yes, our standard is pre-War, with those adjustments which have been necessary as a result of changes in hours, and things like that. Broadly speaking, our standard is pre-War, but the scale represents the difference between 26¼ and 11¼ per cent.

4579. *Mr. Lubbock*: So that if the price fell wages would fall as well?—If wages fell as a result of a fall in the price of ship plates and the other plates upon which our scale is based we could very well come to zero.

4580. You are not at zero yet?—We are not at zero yet, to the extent of 26¼ per cent.

4581. *Lord Bradbury*: Your standard is based on pre-War prices?—Our standard is based on prices in 1905. Of course, some of our scales have come down to zero. In the South Wales steel trade and in the tinplate trade the scale that was in operation before the present one in both cases dropped to zero, but there was no reduction on the standard wages, because the standard wages were regarded as the minimum. The scale actually ceased to function.

4582. *Mr. Lubbock*: If there had been no minimum, wages would have sunk still further?—Wages would have dropped still further.

4583. It might be that the price might fall so low that, the minimum wage being fixed, it would be impossible for the industry to pay the wages?—That would hardly be possible, I think. If you take steel its present price is about 14 per cent. above pre-War prices, and I think we have got down to bedrock; I do not think you can get it any lower, or that what you suggest is likely to happen.

4584. *Mr. Bevin*: You are dependent entirely on the export trade?—To a large extent.

4585. In working out your scales for 1922 to 1925—the last change before the return to the gold standard—was it your experience that you found extreme difficulty, and the employers also, in arriving at settlements in regard to the standards—take the tinplate trade—because of violent fluctuations of prices?—Yes, in the discussions we had there we certainly did find very considerable difficulty, and there is no doubt at all that violent fluctuations in prices very much disturb our arrangements for fixing wages.

4586. In the tinplate trade, for instance, you remember that after a most elaborate inquiry there was a post-War standard worked out in the light of the deflation that took place in 1921?—Yes.

4587. And everybody in the trade, with almost ideal co-operation, endeavoured to re-establish post-War business on that footing?—Yes.

4588. In 1925 the whole of the work was brought to naught, was it not?—Yes.

4589. And that has led to a whole series of efforts to try and re-establish business on the basis of the new conditions?—Yes.

4590. If there is deflation again now, or deflation does not stop, even with the best will in the world that trade is bound to be upset again?—Yes, I think it must be.

4591. And that would apply pretty generally over the export trades, would it not?—Yes, I think it would affect us generally.

4592. *Professor Gregory*: What is the time lag involved in the readjustment of the pluses?—Generally every three months, in some cases two-monthly periods.

4593. *Mr. Bevin*: It was estimated, I think, by the employers that the 1924-25 return to the gold standard made a difference on their selling price of 1s. 4½d. a box?—Yes, I heard a figure something of that kind mentioned in our discussion.

4594. And they were contracting on our basis then at a profit of about 4d. a box f.o.b.?—I believe that was the figure.

4595. *Chairman*: Would you turn to paragraph 28, Mr. Pugh? You say there, "but there is a *primâ facie* case for concluding that fluctuations in prices and employment, if on a considerable scale, are frequently accompanied by industrial disputes arising from the necessity for the readjustment of wages. Wage changes may be, and often are, due to other causes, and disputes may arise in these cases, but it seems clear that many disputes are caused by the readjustment of the wage level, up or down, as prices fluctuate." Is it in your view inevitable in the industrial world that those readjustments which must take place from time to time must always be accompanied by disputes? It seems an extraordinarily wasteful method of effecting adjustments that they should always be achieved through a dispute, the fault of which may be with one side or the other. It seems a very expensive way of effecting readjustments, which all parties realise must accompany the fluctuations that may arise?—Well, Sir, I think inevitably it must cause friction, because the principal factor that has involved discussion is wages, and the tendency is to resist reductions in wages.

4596. Or to resist increases?—Or to resist increases; unless the conditions of the trade are so prosperous that it does not make very much difference; but clearly the chief ground of friction in industry is variations of wages.

4597. Quite. You have given us some very instructive figures showing the extent of disputes. These disputes are, from the economic point of view, extremely costly to the country?—I agree.

4598. I am very much impressed myself by the immense wastage consequent upon these stoppages, when I suppose all parties recognise that there must from time to time be increases in wages and decreases in wages—in short, that they are not absolute figures, but relative figures, that they do adjust themselves from time to time, but by the most expensive possible process, a process that involves enormous economic waste. You told us that in some industries that is sought to be avoided by a scale that works itself, and if it is a fair scale that seems to be a way of avoiding disputes, but apparently no device that would be accepted as a fair device has yet been arrived at, which would enable these adjustments to be made without resort to this frictional process of dispute which seems to me so extraordinarily wasteful. The figures of wastage are appalling. I put that point because at the present time, when we want to save every penny we possibly can, it seems unfortunate that we should be squandering our efforts in disputes. Friction, of course, is always wasteful in a machine. Has your Council any suggestion to make as to some method whereby wages adjustments could be made on a fair basis reflecting changes in price levels without this constant economic loss due to friction; or is it psychologically impossible to get over it; can we only get to readjustments through strife?—I do not say that you can only effect readjustments through strikes; you can minimise that risk to a very great extent. Of course, as far as our iron and steel scales are concerned they are really designed to give the workpeople something upon their standard wages in times of good trade, and to provide relief, within the measurement of the scale, during times of bad trade, and to that extent they do prevent friction that might otherwise arise from other methods of adjusting that particular part of wages. But when you take the general wages position, even in our industry we have got to discuss alterations of wages both up and down, we are discussing them every day locally, but we have to discuss them sometimes from the national standpoint of standard wages, and in the last two or three years, because of trade conditions and prices, we have had to deal with general wages as apart from the wages that are governed by our scale. In those circumstances, the most you can do to avoid strikes is to have the best possible machinery for discussion, and make the best possible use of it by putting the cards on the table and making perfectly clear to all concerned what the facts are. I think many of our difficulties in discussing wages problems are caused through lack of knowledge of the facts; if you have not the facts, and you are talking in the dark, you are proceeding in an atmosphere of suspicion, you do not arrive at any agreement on the merits of the case, and the inevitable result is friction, and very often stoppage of work.

4599. Are you in favour of the method of conferences?—Oh! yes, Sir; our industry is traditional for its conferences, and that sort of thing; our joint machinery goes back to the 60's of the last century.

4600. *Mr. Bevin*: In the steel trade, as against many other trades, you have had a pretty good organisation on both sides?—Oh, yes.

4601. And you have had good leadership among the employers?—Yes.

4602. That is to say, that if you, or Mr. John Hodge, or somebody like Mr. Lysaght, appear for both sides, there has been, whether in good trade or bad, honourable acceptance of what has been decided?—Yes, you have mentioned a very typical case.

4603. In your trade you have had a very careful system of auditing, which has given you the price levels for your commodity?—Yes.

4604. That has been an independent audit, and has been accepted by all parties?—Yes.

4605. Is it not your experience that in other trades, with very few exceptions, the employers know nothing at all about price levels when you meet them, or give any consideration to them?—We do not touch upon other industries very much, but certainly our experience is that the position is somewhat different from what it is in our own.

4606. And is it not your experience that in many of the employers' associations, unlike your own trade, where there has been an acceptance, directly something hits them their association breaks up and they find that their members, instead of coming together for discussions between the parties to get over the difficulties, run away from each other?—We have had a little experience of that in certain sections of our industry, where lack of proper cohesion on the employers' side has tended to upset our joint machinery, and where employers have left their association in order to avoid the obligation of carrying out the arrangements made. These kind of things are clearly very disturbing and make the satisfactory use of the joint machinery negative in many cases. It is absolutely essential that you should have well organised bodies on both sides.

4607. *Chairman*: Do you find trouble in the trade union world from people breaking away? (*Mr. Bevin*): Not on wage agreements.—Not on wage agreements; we may have local disaffection, but we have to apply discipline. The great principle that must govern your machinery is that both sides should be prepared to exercise discipline. As an example, a couple of years ago we had an Arbitration Court set up to deal with a wages question affecting men in the same kind of occupation, and in two different works. We had the same Arbitration Court. The Arbitrator gave his decisions at the same time. They were two distinct cases. In one case the employers did not want to accept it, and in the other case the workpeople took the same line. We, however, pretty well understand each other, and so the employers said to their side "You have to accept it" and we said to our side "You have got to accept it," and that really settled the thing. It is necessary to have not only understanding on both sides, but an understanding as to discipline within an organisation.

4608. *Chairman*: Loyalty?—Yes. Really we do not find very much difficulty. We have had difficulty in certain small branches of our industry but it has largely been through lack of cohesion on the employers' side.

4609. If I may give an example from my own experience as independent Chairman in the shipbuilding industry for several years, when I had no powers of arbitration, but sat as a moderator in disputes, I was told by the Trade Union representatives that they found that process extremely valuable, even though it did not necessarily result in agreement, because of the information elicited. I am referring to the point that you made a few moments ago, about the importance of having a full knowledge of the conditions. I am bound to say the problems were discussed with great candour on either side. You get full appreciation of the points, which you cannot get in a hostile atmosphere; you can get it in a deliberative atmosphere. That seems a hopeful line to pursue?—I agree, if you can get a suitable chairman to help the parties, that is very valuable indeed, and, of course, the long-standing machinery in our industry started in that way. In the wrought iron trade, which existed prior to the introduction of steel, they formed their Boards and then they had what they called an "Umpire," whom they brought in if there was any dispute that they could not settle themselves. He assisted by eliciting the facts, and so on, and they gradually built up the kind of machinery as we have it to-day, and which is very valuable.

4610. We are all agreed that the cost of production must be kept as low as it can be at the present time in a competitive world, and at the same time that production has been burdened in the past by wasteful expenditure in mere friction and strife?—Yes.

4611. We can afford a certain amount of that, we can afford to quarrel when there is a margin to quarrel about, but when the margin disappears the effects of strife become more serious, and there is less to bear that burden. It seems to me that one of the important things at the present time is to diminish every one of those on-costs of labour which produce increased prices and diminish competitive power, and I think it appears from your analysis that in the past we have been wasting a great deal of money in strife?—I entirely agree.

4612. And you would be in favour—I know you are, in the Congress—of eliminating as far as possible that element in the cost of production. The operative part of your paper here seems to be this: that as strife has been occasioned largely in the past through fluctuations in price levels, and the difficulties that these bring about, in wage disputes, a hopeful direction of proceeding would be to eliminate price fluctuations, as far as possible, to stabilise prices?—As far as possible.

4613. If that is possible?—Yes.

4614. *Mr. Bevin*: Or a tendency upward?—Yes; I understand stabilisation to mean upward or downward as regards rapid fluctuations.

4615. *Chairman*: In the next sentence of paragraph **28** you go on to say, after pointing out that "Wage changes may be, and often are, due to other causes, and disputes may arise in these cases, but it seems clear that many disputes are caused by the readjustment of the wage level, up or down, as prices fluctuate" . . . "Consequently it would seem that if stability of the level of prices could be obtained, there would be a diminution of industrial disputes," —and, may I add, a consequential reduction of wasteful and uneconomic expenditure?—Yes.

4616. "If retail prices alone were concerned this position might be met by the universal adoption of cost-of-living sliding scales, which would effect the adjustment of wages automatically." Again, of course, you might still have the difficulty of the lag there. You go on to say "That the incidence of disputes has been less in industries having such sliding scales seems clear, but there are other important elements in the general situation. From the workers' point of view the cost of living is a vital factor in relation to his money wages, but from the employers' point of view the level of wholesale prices is far more important." Then you point out, what is very true, lower down, that very often the only factor in the production costs that he can control is the labour cost, and consequently it is there that the trouble arises. The manufacturer gets his raw material at a world price, he has to bear a certain number of statutory obligations—for example, he has got to pay workmen's compensation, and all those things; he cannot control them—the only controllable figure, so to speak, in the cost of production is the wage figure?—Except his overhead costs.

4617. That is quite true—his overhead costs. That would bring one to the question of rationalisation—greater efficiency in business?—(*Mr. Milne-Bailey*): Wage costs also depend on rationalisation.

4618. The two are intimately concerned; and, of course, you might also say that the profits of the business are within his control too. I am afraid in a good many industries lately there have not been the profits to control. Consequently, I suppose the quarrel or strife necessarily concentrates upon the controllable element represented by wages and overheads?—(*Mr. Pugh*): Yes, I suppose those are the principal controllable factors.

4619. I am glad you mentioned overheads, because that brings one to this point. We hear a great deal about rationalisation, which I regard merely as greater efficiency, elimination of wasteful competition, removal of obsolete plant and other steps of that sort which are all directed towards greater efficiency. But we do not find there, do we—at any rate in the first instance—any remedy for unemployment?—No. Well, of course, I take the view that our conception of rationalisation is a very narrow one.

4620. You might develop that. What exactly do you mean?—I mean, so far as rationalisation is concerned, we assume that if two or three concerns are amalgamated that is the whole process of rationalisation. But I look at it from a much wider view than that.

4621. How do you envisage rationalisation?—I think if you want to rationalise you should have a careful planning of your whole scheme of things, not assume because you have amalgamated two concerns that you have accomplished everything; if you are going to throw out labour power at the same time one wonders whether you have effected anything that is of any good to the general community. You may have improved your own position as a business, but I cannot imagine any form of rationalisation benefiting the community which stops short at the amalgamation of a number of concerns, necessary though that may be as one of the elements in the process of rationalisation.

4622. Suppose that you have two factories in competition with each other which are only working to 40 per cent. of efficiency and you can get the same output from a combination of those factories, you can effect economies, you can get rid of a redundant board of directors? (*Mr. Bevin*): That is what we do not do. (*Chairman*): I say you ought to. On the other hand, the result would be a diminution in the amount of labour employed?—Yes.

4623. *Chairman*: In the long run, would that cure itself in this sense, that if you got rid of the on-costs, you would be able to cheapen the cost of production and consequently increase the demand for the product, and if you increased the demand for the product, would you not get back to the position that you would be able to employ more labour?—In theory that sounds all right; I am afraid it does not work out quite like that. That may be very good for an isolated business, but one has to consider its general effect. It seems to me that the advantage that you gain in increased production and, even to some extent, in the reduction of your price is offset by the fact that you throw a large number of persons idle, whose purchasing power is diminished, who have to be maintained upon the increase in production you obtain or its equivalent and that what you gain on the swings you lose on the roundabouts.

4624. It is a depressing view, is it not?—I think if you are talking of rationalisation in relation to an industry you want to visualise the whole industry and the wider implications of the process you are going to carry out. There should be some sort of general planning which has regard to the whole of the factors. We seem to have got a one-eyed view of rationalisation by assuming that if you amalgamate two or three businesses and throw others idle and put a lot of workpeople out of employment, we have carried out some valuable economic process which is for the good of the general community. I do not rule out economies and all that sort of thing, but if that is as far as we visualise the position I say it does not go quite far enough for the interests of the general community.

4625. What more would you do?—I would see to what extent I could use the increase of production in maintaining the largest volume of employment, even if I had to do it by spreading the labour, that is to say, by reducing the hours of labour of those employed. Of course, if you apply it to an individual business the employer may say, "I cannot employ any more men." But that is where I say we fall short by stopping at the individual business and do not visualise the whole of the industry. (*Mr. Milne-Bailey*): May I amplify that? I think the point we stress is that an essential part of rationalisation is the scientific organisation of labour supply and distribution as well as the scientific organisation of plant and so on.

4626. *Mr. Bevin*: For instance, if you have a new machine or a new organisation that can produce a higher wage and if by distributing the wage between three men in the 24 hours you would leave one idle to be maintained by the State, then, if by this reorganisation you produce a higher output at the higher wage, you could keep up the standard by employing four men for six hours rather than three men for eight?—That is one possible way.

4627. In another industry where that is not practicable and your overheads at week-ends and so on are heavy, you would reduce to a five-day week rather than pursue the wasteful method involving three or four hours loss of power, etc?—That might be possible in some cases.

4628. Another method you have in mind, I take it, is that if the industry looked at the problem as a whole and found that it had to restrict, at least on the year's production, it might be able to restrict by means of giving the workpeople holidays on an organised scale instead of the factory stopping as it does now?—Yes, quite.

4629. *Mr. Keynes*: Mr. Pugh, your main conclusion in this Memorandum is that for various reasons you think it in the interest of the working classes that there should not be either severe deflation or severe inflation?—(*Mr. Pugh*): Yes.

4630. And you conclude that the deflation that has taken place in the last five years has been injurious; is that right?—Yes.

4631. Do you think that has been outweighed by any benefits obtained from the course of policy of the last five years?—(*Mr. Milne-Bailey*): Not as far as industry is concerned. (*Mr. Pugh*): No, I have not seen the benefits so far as the kind of industry I am engaged in is concerned; they have not been apparent in my industry anyhow.

4632. So far as your experience goes there is a balance of disadvantage?—Yes.

4633. As time goes on, one may assume that efficiency will increase?—Yes.

4634. Would you prefer, from the point of view of the working classes, that that should take the form of higher money wages or of lower commodity prices; would you rather keep the wage stable in terms of money and have the cost of living index down, or would you keep the cost of living index stable and let money wages go up?—I think, speaking for my own people, we would rather have higher wages and take our chance of the lower prices.

4635. *Chairman*: It feels nicer to have the money jingling in your pocket. (*Mr. Bevin*): It is more certain. (*Mr. Keynes*): Your ideal system would be that commodity prices should be stabilised? As efficiency increases there should be a slightly increased money wage?—That is desirable from our view. (*Mr. Milne-Bailey*): Or it could be taken out in increased leisure.

4636. You would prefer to have it in increased money wages rather than in a falling price level, even though that falling price level was due, not to deflation, but to increased efficiency? I have heard it argued that some part of the fall of prices which has occurred is to be attributed to the increase in efficiency, and not merely to deflation. You would dispute even that part of the fall of prices?—Is the question, that I do not admit that some part of it is due to increased efficiency?

4637. It is ordinarily argued that some part of the fall of prices is due to increased efficiency of production, and not entirely due to monetary policy? —Quite.

4638. You would rather have a monetary policy which prevented even that change of prices, and allowed for some increase of money wages?—I think we would rather have the increase in money wages anyhow, or, as it has been put, increased leisure, or increased employment for those who are unemployed.

4639. *Chairman*: On that point of increased leisure, is it desirable, in the interests of efficiency, to increase that beyond a certain amount? Is not too much leisure rather wasteful?—Well, it all depends upon the number of persons there are. I cannot see any value in a policy which maintains workers in employment for whatever the number of hours that may be allowed when we have 2,000,000 people for whom there is no employment at all. There is that aspect.

4640. You would rather have double the number of people employed half the time than have half employed and half unemployed?—I think on the whole, from the social and other aspects, that would be preferable.

4641. *Mr. Brand*: And would you give them half the wages?—That would depend upon the extent to which you pushed up their production.

4642. *Mr. Bevin*: Following that point: How far have you pushed up the production per unit in the steel trade?—(*Mr. Pugh*): I have some interesting figures on that which I happened to bring with me. In our pig iron section—I take the years 1920 to 1928—there has been a reduction in the average number of furnaces of 50 per cent., that is to say, that in 1920 there were 285 furnaces in operation, in 1928 the average was 143. That was the average for the year. The production of pig iron in 1920 was 8,034,700 tons; in 1928, with the smaller number of furnaces, it was 6,610,100 tons; that is to say, the output of 1928 was 82¼ per cent. of that of 1920. But the number of workpeople employed in 1928 was 54½ per cent. of those engaged in 1920, and the production per man of those employed in 1920 was

199.62 tons. The production per man employed in 1928 was 300.65 tons. That is to say, that the output per man in 1928 was 50½ per cent. greater than in 1920. If you take finished steel—this excludes tinplates and galvanised sheets—our production of finished steel in 1920 was 5,700,400 tons, in 1928 it was 5,467,000 tons. That is to say, that the output in 1928 was 96 per cent. of that of 1920, but the number of workpeople employed in 1928 was only 59 per cent. of those engaged in 1920, and the output per man in 1928 was 62¼ per cent. greater than in 1920. That is to say, that whereas the production per man employed in 1920 was 33.76 tons, the production per man employed in 1928 was 54.82 tons. So that you have got this position, that with greater efficiency in productive capacity, with a less amount of plant, the number of workpeople was fewer and the production per unit of the workmen considerably increased.

4643. What is the rate per ton, leaving out the big bonuses, due to those changes? Have you got those figures?—I do not know whether I have the figures of the difference in wages, but I know on the wages factor there is a considerable reduction in costs, because if you take our sliding scales in 1920, in the heavy steel trades our scales went up, I think, in 1920 to about 190 per cent.; it is now 26¼, since 1928; so on that point alone you get an enormous reduction in wages as the result of the scale. Of course it is true that prices have gone down at the same time.

4644. *Sir Thomas Allen*: Could you give the price of commodities relative to the decline in employment?—I could supply you with the relative price of commodities which governs our wages for these years. I could supply the Committee with a complete statement of that.

4645. If there was half the number of people employed and the commodity price was in parity there must be an increase in the profit to someone?—No, I am afraid it all went to the consumer.

4646. *Chairman*: These are very striking figures. To what do you attribute the large percentage increase in production per man employed? Is it due to the men working harder or is it due to improved machinery placed at their disposal?—No, I think there is a very great contribution to it in an improvement in technique and in mechanical appliances, and to some extent in organisation. The men have got to work harder; they have to speed up, and I think the new methods of production involve greater keenness and responsibility.

4647. More interest in the work perhaps?—Well, it is necessary; our modern methods of production require a more active type of man, and it does involve greater responsibility, because of the character of the plant; but there has been considerable improvement in technique and mechanical appliances.

4648. Is not that all to the economic good; that is to say, if you are getting with less labour more output, then, of course, you are enabled to reduce the cost of your product very materially; nevertheless, coincidentally with that you have the unfortunate social consequence that although you are getting more goods produced, fewer men are employed in producing those goods and large numbers of our fellow-citizens are thrown out of employment. That seems to be the phenomenon with which we are faced?—Oh! yes; I am not depreciating the value of increased production and economic production, but if I look at it from the point of view of the iron and steel industry, and see where our prices have got to, and the low profit, I want to know what the iron and steel industry have got out of it. A good many people ought to be employed on that footing. You have to take a very wide view and consider the reactions of one industry on another. You have to take a wide economic survey of the effects of rationalisation to see whether it is going to prove to the general advantage.

4649. *Mr. Brand*: If any industry like the iron and steel industry is in competition with foreign countries, and they rationalise, have we any alternative except to follow them?—(*Mr. Milne-Bailey*): Lead them; not follow them.

4650. Well, we may lead them in rationalisation or non-rationalisation, but we have to pursue the same course?—(*Mr. Pugh*): We have got to be equally efficient; there is no doubt about that.

4651. *Mr. Bevin*: The problem arises as to whether a trade like the iron and steel trade, or even the coal trade, which produces at a low figure as a result of rationalisation, should stand precisely on its own bottom, and not find a way to bring in a wider rationalisation so that some of its gains can come into the prime product?—Yes, that is so. Of course, I suppose it is the competition we have had to meet; I do not think the iron and steel industry has got very much out of its effort; it has not been able to utilise the resources which should be available from its improved production, and its reduction in labour costs and so on; it has not been able to utilise any of it to the best advantage, even having regard to the general interests of the community.

4652. What is the total output of steel now compared with pre-War?—Last year we produced about 9,600,000 tons, I think. Our productive capacity is estimated at anything between 12,000,000 and 13,000,000 tons. Our pre-War productive capacity was 8,000,000 tons, and our highest production was in 1913, 7,600,000 tons.

4653. A big proportion of that would be for war purposes?—A greater production in pre-War days would be for war purposes than is the case to-day.

4654. *Mr. Brand*: Then the problem would be not so much the production as the fact that, however much you produce, there is no profit even with the present low scale of wages?—It has certainly not been a profitable industry for the past five or six years anyway.

4655. That condition applies to coal and shipbuilding too?—I suppose it applies more or less to all our great basic producing industries, particularly the export trades.

4656. And agriculture?—And agriculture. (*Mr. Milne-Bailey*): Of course, one assumes, as far as the home market is concerned at any rate, lower prices mean that the consumer has more to spend on other products.

4657. *Professor Gregory*: I want to be quite certain that I understand what you have said about extending the benefit of rationalisation to all the products of industry. Take a product which costs £10 to produce before rationalisation, and say that by rationalisation you can cut it down to £5; is it your argument that in the interests of the people in the industry one ought to keep the selling price of the product up to £10, so that one can employ double shifts, or do you want some scheme by which the benefits of rationalisation shall be partly devoted to keeping up prices artificially, and partly given to the consumer?—(*Mr. Pugh*): Yes; I am not suggesting that if we keep the costs down to £5 a ton we should necessarily keep the whole difference in the industry. What I do want is to find an adjustment which will give an advantage to the general community as consumers and at the same time avoid this deplorable condition of seeing large numbers of men idle who have to be maintained by the community. There is not merely the moral effect, you must bear in mind in our industries you have men who have obtained, over many years, considerable skill and experience, and I do not think industry can afford to waste that; therefore if by improved technique, by organisation, you can increase your productivity and reduce your price, you ought to consider, in the interest of the industry, to what extent you can effect the absorption of labour and maintain a generally healthy position. At the same time, of course, you have to consider how much you can distribute generally to the advantage of the consumer. I do not think we attempt to consider the thing from that wider point of view at all; we are satisfied if we can get two or three works together and reduce the cost of production; we never consider the effect of throwing large numbers of workpeople idle. Our opinion of that narrow conception of rationalisation is that it is a one-eyed view.

4658. I agree there is the possibility of a manufacturer finding a solution by cutting down the price and trusting to Providence to re-distribute labour or arrive at some sort of re-distribution of the benefits of rationalisation, which I take it is what you refer to?—Yes, that argument was all very well a century ago, when we were developing great industries from what hitherto was largely a pastoral condition; then you could rest assured if you put in more plant in developing industry it would repay you and employ more labour, but that is not the case to-day; it is more a case of perfecting the plant that you have, and that development does not provide a wider scope of employment, because what you are doing is to concentrate production upon a smaller amount of plant. In that process you throw your labour out, and it does not mean that the value in reduction of price you distribute over the country is such as to create a further demand which leads in turn to the employment of a greater number of people. The position to-day is quite different from what it was a century ago.

4659. I do not want to press you too far. I take it your view of the industrial situation is that rationalisation at present, unless accompanied by some deliberate spreading of work, keeping for the industry the benefits of rationalisation, is not regarded as desirable?—(*Mr. Milne-Bailey*): I did not express that opinion; I merely put that as one of the two possible extremes.

4660. I merely want to ask you whether you agree with it?—I think it is possible to get something between the two extremes so that you do not discourage the mobility of labour and redistribution of industries, while at the same time you do safeguard the people who are displaced during the transition period.

4661. I want to come back to the stabilisation policy that you wish to pursue. What you are working for, taking the present position of industry into account is this: you want the present price level to be maintained, but you want the benefits of rationalisation to accrue to the existing body of workmen and employers in the industry as those workmen and employers are at present distributed. Your proposed stabilisation is a pre-rationalisation stabilisation?—(*Mr. Milne-Bailey*): It is a stabilisation of the general price level, not of the price of any particular commodity.

4662. You have the choice between one or the other of two alternatives, either you allow individual prices to fall in which case you will not have obtained for the industry the benefit of rationalisation, or you want to keep prices up?—It is a question of general policy. Applied to an isolated case any policy may be detrimental or otherwise; applied to the general situation the result may be entirely different.

4663. Supposing on the one hand you have a policy of rationalisation. If you leave everything else alone that will lead to a great reduction of prices, and therefore to some prospect of decreasing the standard of life in particular industries. On the other hand, if you start with the assumption that you will keep the price level constant, and then have rationalisation you will be able to retain for industry a larger proportion of the benefits of rationalisation than you could otherwise?—If we proceed from our present price level we proceed from bedrock, and anything we can get from rationalisation we are entitled to.

4664. May I go back to the answer you gave to Mr. Keynes, which I think is a very important answer? I will put it this way: On what ground do you base the view that it is better to keep prices steady and have wages going up; is it merely a psychological view, or do you think the working classes directly benefit from it? You said you would sooner have a bird in the hand?—Well, I think we would. If you said to our people, would they rather have another £1 a week, say, or a problematical reduction in the cost of living which might increase the value of their existing wage to the extent of £1 I think they would rather have the £1, because the one is problematical, but the other is secure.

4665. If I went to any body of workmen and said "Would you rather have £1 a week now?", they would prefer the £1 a week now to the £1 contingent on prices falling, but if one is to pursue a stabilisation policy one must assume that the result of that policy will be that stable wages and stable prices are both equally possible. Supposing you were absolutely certain that retail prices and wholesale prices would fall by a certain proportion, would you prefer to accept stable wages, provided that one could prove to you that in other respects falling prices were preferable to stable prices?—(*Mr. Milne-Bailey*): There are other disadvantages arising from a falling price level. There is a balance of disadvantage in a continuing decline in the level of wholesale prices.

4666. *Chairman*: It is exceedingly difficult to bring home to the working man a conception of real wages—at any rate the working man's wife. (*Mr. Bevin*): I should have thought the working man's wife would have appreciated the second rather than the first?—(*Mr. Pugh*): If you are talking of iron and steel workers it has not panned out; our prices are 14 per cent. above pre-War, our contribution to reduced prices is a very profound one, but it has not reflected itself in our increased purchasing power and unless you can assure us that over the whole of your economic system the reduction in the cost of living and the price at which we can obtain our commodities will make it worth while for us to accept lower wages, we would rather have the higher wages and take the chance. The psychological aspect of it is a very important one; if you give us an increased wage we have got it, as against the possibility or theory that the value of our purchasing power is going to be increased.

4667. *Professor Gregory*: What has been your experience—you have had a very wide experience of the labour movement—does a period of rising prices accompanied by rising wages seem more unsatisfactory from the working class point of view than a period of falling prices accompanied by falling wages?—We have had a much greater feeling of contentment when prices have been going up and wages have been going up.

4668. Before the deflation of 1921 there were accusations of profiteering and great unrest?—Before 1921. That was quite an abnormal condition of things. I want to say to you this: if you could secure that the workers generally got in their hand an increase of wages as the prices of commodities were going up in times of good trade, they would have a much greater satisfaction. The point is, you cannot secure that; we have tried to secure it to some extent in the iron and steel industry by a system of scales, with the result that when trade is prosperous our people get something. We have devised that scheme, and although it is a rough and ready one it approximates to something tangible; we have far greater satisfaction in our industry, although prices are going up, because the men's wages are going up too.

4669. I want to reconcile the maximum amount of benefit to the working classes with the maximum amount of benefit to the other classes. My difficulty in accepting your view is that, although it may be psychologically true that the satisfaction is greater with rising prices and rising wages than with falling prices and failing wages, there is something in the view that other classes would not benefit?—It surely depends upon production as well as price.

4670. You would not let prices fall?—No, not quite that. You would have a greater amount of commodities to distribute. (*Mr. Milne-Bailey*): There is some statistical evidence on this question of the incidence of disputes. If the general development of trade and industry is on the upward grade then there is direct correlation between disputes and prices and there is inverse correlation if the general trend is downward. But the interesting point is this: Whichever way you take it, the incidence of disputes is greatest on the upward and downward curves of the trade cycle. If I may refer to a point made by Professor Gregory: I do not quite see what the argument is on this point of an individual commodity being cheapened by rationalisation. Is it suggested, for instance, that owing to methods of rationalisation the total volume of production is increased? Because if the total volume of production is restricted to its former level, but is made at smaller cost, then presumably the price will not go down; anyhow, assuming the demand remains the same. The price would only come down, I take it, if the result of rationalisation and consequent saving of cost was to increase the total production. When the total of production is increased then you have in effect a disharmony between money and production; you cannot talk about all prices going down in consequence of rationalisation unless you are bringing some sort of disharmony into your monetary system.

4671. You are simply saying, if there is an increased output and the supply of money remains more or less constant, there will be a reduction of prices if the monetary machine does not respond to the rationalisation process. In those circumstances the consumer gets the benefit of rationalisation?—Quite.

4672. If on the other hand you attempt to keep prices up . . . ?—By adjusting your monetary supply accordingly?

4673. Yes—there is room left for the retention by the industry of a greater portion of the benefit of rationalisation than there would be otherwise, according to Mr. Pugh's idea?—(*Mr. Pugh*): Mr. Pugh's idea is not a rigid one; he allows for some adjustment. (*Professor Gregory*): Yes. I do not want to press it at this stage.

4674. *Mr. Bevin*: Could you tell us, taking the steel trade for example, what proportion of the total output is affected by the real international fight for prices?—It is mostly what we call the heavy branches—things like plates, semi's, sections, and those kind of things, where the principal international competition comes in.

4675. How much of the 9,000,000 tons that is produced enters into this terrible international conflict with America, Belgium, and all the rest of it?—Well, of course that represents ingots and castings; I do not think I could give you a percentage; a great deal of that goes into engineering, and would be affected by what happens in the engineering trade, but a very large proportion of it certainly is subject to international competition.

4676. *Chairman*: Your general exhortation to us as a Committee is to be found in paragraph **35**, where you ask that two questions may be earnestly considered; first of all, whether stabilisation of the general price level would help to avert these evils, "these evils" being the evils of acute industrial disputes, lower wages and unemployment; and secondly, whether, if so, such stabilisation of the general price level is practicable—I think possibly you mean without accompanying ill effects in other directions. You go on to say "Our own view is that stabilisation of the general price level is extremely desirable, if it can be attained without resulting in worse evils than those it seeks to rectify." Would you tell us what are those "worse evils" which you are apprehensive might result from a forced stabilisation of prices—what is the kind of thing that is in your mind?—We cannot tell you that. We suggest that that is a matter for investigation.

4677. You evidently apprehend there might be something?—No; we do not know; we say there might be.—(*Mr. Milne-Bailey*): Some authorities say so.

4678. What do you say? You are an authority, after all?—We say we leave it to the Committee. (*Mr. Pugh*): I think we will leave it to Professor Gregory.

4679. *Chairman*: These severe oscillations are obviously disturbing. They bring about industrial disputes and friction. You naturally say we must look for a remedy in an endeavour to obtain greater stability. Then you say, of course it may be that the effort to obtain that stabilisation, or the means taken to obtain it, may have repercussions in other directions, which you say you do not know about, but which may possibly have more severe consequences. I thought possibly what you had in mind was this: that we are not a self-contained country, and that the monetary steps which we might take if we were a self-contained country in order to stabilise prices might have consequences internationally upon our export trade which would land us in the end in a more serious plight than we were in in the beginning. Is that really what you have at the back of your mind, that there might be such risks?—(*Mr. Milne-Bailey*): Yes, there might be.

4680. Of course, these are very difficult problems. It would be a poor thing to obtain stabilisation at home and at the same time find that our trade had gone altogether?—Yes, we might find stabilisation was impossible; we might have to have international stabilisation. (*Mr. Pugh*): We have had a little of it in particular industries, but that is no criterion by which to settle a general policy.

4681. You leave us with those questions, which are very difficult to solve, and you promise us a second instalment. May we look forward to a visit from you again, when we shall have from you your suggested remedies?—We are proposing to continue our efforts to assist the Committee, Sir, and I expect we shall be before you again at a convenient time, on any matter upon which you require our views.

4682. *Mr. Lubbock*: One quite realises that if a single industry rationalises itself, a certain number of men are thrown out of employment, but you would not be opposed to an industry rationalising itself, would you, if such rationalisation were necessary for it to compete with the world?—We are not opposed at all to rationalisation as such. We are making our contribution in the iron and steel industry by the general co-operation of the workpeople to all the efforts to that end, and we are not opposing it. Our policy is to assist in greater efficiency, greater organisation, and so on, and we accept the consequences. What we feel is, that one wants to have a somewhat wider vision to get the maximum advantage of rationalisation, both for the industry itself and for the general community.

4683. Of course, the single industry cannot take the wide view that you are suggesting?—It is very difficult for an industry to apply the wider view, even though they think it should be done.

4684. But that particular industry would be bound to go forward with rationalisation, even though it involved the displacement of labour?—We are not likely to oppose any step taken towards greater economy and efficiency by rationalisation, despite the evils that it brings upon us by lack of a wider policy which may not be possible in the industry itself.

4685. One hopes that that evil will cure itself as time goes on?—Yes; but as it is taking place throughout the world I wonder what is to be the end; when we are all equally efficient and we have a large volume of unemployment, what shall we have accomplished?

4686. *Chairman*: Is not one of the real root difficulties this, that while the principles of political economy ruthlessly applied may have certain beneficial results in reduction of costs, greater output, and so on—all these things are sound economically, and most desirable—the rigid application of purely economic doctrine may have very unhappy social results? Is not that the difficulty?—May have unhappy social results which may even, to a great extent, counteract the economic advantages.

4687. Supposing the consequence of rationalisation is economically admirable, that is to say, you are getting your prices reduced by half, the amount of labour by half, and the on-costs, so that you are able to produce much cheaper and in greater volume; at the same time you are throwing out of employment 50 per cent. of the labour employed—in fact, that may be one of the economies resulting from rationalisation—all these people, after all, are citizens of this country, and as long as they are in this country they must live, and if our social system involves their being kept doing nothing, then again you get back into the uneconomic position that the benefits you derive from rationalisation do not redound to the general prosperity of the country, but are simply expended in the form of assistance to people who are thrown out of work. (*Mr. Lubbock*): Are you speaking of rationalisation of industry as a whole, throughout the country, or rationalisation of particular industries? (*Chairman*): I am speaking of the whole of our country being made more efficient economically, and requiring less labour to produce the same amount of product. (*Mr. Frater Taylor*): Surely that would enable us to cut down our imports. Take the steel trade: I think that rationalisation, if properly applied, would help to reduce that terrible figure of 3,000,000 tons which is coming into the country. (*Chairman*): I suppose theoretically the result would be that we should be able to give more employment on a rationalisation basis, and ultimately things would adjust themselves in the end, but there must be a stage before you could reabsorb the people thrown out of employment; in the meantime those people would be a burden to trade until you got them absorbed in industry by an increased demand?—Unless you are going to very considerably extend the use of your commodity I do not see what ultimate advantage you are to get when everything has been rationalised and everybody is equally efficient. I suppose that Professor Gregory will say you are going to reduce the price to such an extent that people will buy it, and so on, but from the point of view of the layman, a workman's representative, I do not quite see that coming off under modern industrial conditions. I could understand it with the development of a century ago. I hope it will.

4688. *Professor Gregory*: I think it is really necessary to follow this up. Surely it is the case that the whole modern standard of life has only been made possible because of the continuous application of new technical methods of industry?—Quite.

4689. There is no reason to suppose that what has been happening in the past is not going to happen in the future?—No; except that I do not think that the world of to-day is the world of a century ago, Professor; I do not see the thing on quite the same lines. Of course, if you are going to apply all these great developments and so on in Western countries to advance the undeveloped countries, and increase the standard of life of the people there, then I can see enormous advantages, but, as applied to ourselves alone, I do not see what we can get out of it except a lot of unemployment which we are not going to be able to absorb.

4690. It may be that the growing rationalisation of the older staple industries of the world will permanently reduce the employment in those industries—that I am not disputing—what I am saying is, assuming the cost of those products does fall through rationalisation, surely the demand of the world is influenced?—The potential demand.

4691. Increases in demand, you maintain, are permanently impossible?—(*Mr. Milne-Bailey*): No; because by maintaining stability of prices with increased production you would have to increase purchasing power.

4692. Supposing the price of crude materials falls because of rationalisation, there is a margin left for the purchase of other things. It appears to me self-evident from the rise in the standard of living of the great bulk of the population in the Western World in recent years that the transference has been going on. I do not see why we should fear so catastrophic an end to this process that the population of half the world is unemployed?—(*Mr. Pugh*): Not if you are going to bring in those undeveloped countries and raise the standard of consumption so as to dispose of the surplus you are creating in the Western countries. I think it all depends whether we are able to get the true value of rationalisation.

4693. I should have thought that the statistics which we get from this country and the United States show that in the last few years there has been an immense growth in the demand for direct services, cinemas, garages and so on, that would not have been possible without a considerable reduction in costs in the older industries?—I know the question is, whether we have not transferred the distributive costs——

4694. *Professor Gregory*: I am not thinking of distributive costs. I am thinking of direct services like cinemas and garages. (*Mr. Bevin*): At the present time even in England there are only six million employed in industry and the margin between the producing side and the distributing side has grown by nearly a million in ten years. You keep the great drive on the man at the furnace, intensify his labour and give him very low wages for it, or less wages; while other people are getting a higher standard of life he is getting a lower one although he is bearing the heat and burden of the day to keep us doing nothing. (*Professor Gregory*): I agree, the distribution of the benefit from rationalisation is a very grave social point. (*Mr. Bevin*): Let me ask you this, Professor Gregory: How in the world can you, unless you stabilise the wholesale price, get from the rest of the consuming population a proper price for the producer? (*Professor Gregory*): Of course, every producer—and that includes all of us—feels that his services are given for much too low a price. That is the reverse of Mr. Pugh's idea that we must have higher money wages. Surely the point is, that if rationalisation cuts down the cost more through improved production than it cuts down the wage level, the workers in the rationalised industry are not necessarily worse off, they may be a great deal better off than they were before. The essence of rationalisation is to enable the same earnings to be made at less unit cost of output?—We in the industry I am connected with are delivering the goods to the community at a very much cheaper rate than we are getting services in return at the present time.

4695. *Chairman*: Have the T.U.C. any views upon the question of the effect of heavy taxation upon industry as being one of the financial causes of the present difficulty?—We may have later, but we are not presenting them to-day.*

4696. That is one of the subjects upon which I would rather like to hear your views when we meet again. May I say again, we are greatly indebted to you for your kindness in coming here and contributing to a very interesting discussion?—Thank you, Sir.

(*The Witnesses withdrew.*)

(*Adjourned till Thursday next*, 8*th May*, 1930, *at* 4.30 *p.m.*)

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* A further Statement of Evidence (*i.e.* Part II) submitted by the Trades Union Congress General Council will be found at the end of Volume II.

TWENTY-SIXTH DAY.

Thursday, 8th May, 1930.

PRESENT:

The Rt. Hon. LORD MACMILLAN, *Chairman.*

Sir THOMAS ALLEN.
Mr. ERNEST BEVIN.
The Rt. Hon. LORD BRADBURY, G.C.B.
The Hon. R. H. BRAND, C.M.G.
Professor T. E. GREGORY, D.Sc.
Mr. J. M. KEYNES, C.B.
Mr. LENNOX B. LEE.
Mr. CECIL LUBBOCK.
The Rt. Hon. REGINALD McKENNA.
Mr. J. FRATER TAYLOR.
Mr. A. A. G. TULLOCH.

Mr. G. ISMAY, *Secretary.*

Mr. D. H. Robertson, Girdlers' Lecturer in Economics in the University of Cambridge, called and examined.

STATEMENT OF EVIDENCE SUBMITTED BY MR. D. H. ROBERTSON.

1. I propose to examine, with special reference to existing conditions in Great Britain and to remedies which have been proposed, four sets of conditions which may give rise to the phenomena associated with the phrase "trade depression."

I. *The Gluttability of Wants.*

2. The first is, in my view, at once the most fundamental, the most difficult to analyse, and the most difficult to counteract. Its explanation involves a preliminary enquiry into the nature and purposes of modern banking. The primary function of a banking system is to place effectively at the disposal of trade and industry that part of the savings of the people which is committed to its care. But incidentally in modern countries it performs another function—the provision of the predominant form of money, in the shape of deposits on which cheques may be drawn. Subject to a qualification to be mentioned presently, I accept as evidently true the doctrine that the volume of this money outstanding lies wholly within the control of the banking system, as a consequence of its power to vary the volume of its loans and investments. It follows that variations in the desire of the public to commit savings to the charge of the banking system express themselves not in variations in the volume of bank deposits, but wholly in variations of the speed with which the title to those deposits changes hands as a result of the purchase of goods—whether instrumental goods or goods for immediate consumption. It follows further that in order to discharge perfectly what has been described above as its primary function a banking system ought to be perfectly free to vary the volume of its loans and investments, and therefore of the money supply, in response to such changes in the behaviour of the public.

3. An increased desire of the public to save through the agency of the banking system will show itself in a slowing down of the movement of deposits and a fall in the "general price level" of those goods (including new instrumental goods) on which income is spent, beyond what is explicable as a consequence of any technical improvements in production which may be at work. It will call for an expansion of loans and investments on the part of the banking system on such a scale as may be necessary to counteract such an "unnatural" fall in the price level. If this can be effected, the increased saving committed to the banks will be effectively transformed into industrial capital instead of being dissipated in consumption at unexpectedly low prices or checked by the curtailment of production, and the shrinkage of money incomes (which are derived ultimately from the sale of goods) will be prevented. The primary purpose of the banking system will have been fulfilled, and the tendency to trade depression will have been corrected.

4. It is obvious at once that a banking system which, owing to its adherence to an international gold system, is tied by rules or conventions regarding the ratio of its cash to its deposits, will not be perfectly free to vary its loans and investments in accordance with the foregoing criterion. I wish, however, to concentrate for the present on the difficulties which might beset even a banking system operating in a closed country, and which seem to me more formidable than are sometimes supposed.

5. In the first place even such a banking system would probably be governed by certain conventions with regard to the character of its assets. The matter may be developed thus. Of the effective savings of the public outstanding at any time part are embodied in the form of fixed capital—instruments and machines, and part in the form of working capital—goods of all kinds in process of production, transport and storage. Of this working capital a certain proportion—in the case of England about one-half—has been built up with the aid of the banks, the remainder out of the savings made by entrepreneurs themselves or entrusted to them directly by the public. Again, out of the savings entrusted by the public to the banking system, a certain proportion—again, as it happens, in the case of England perhaps one-half—have been embodied in working capital, while the rest are represented by other types of banking assets. Now, if the desire of the public to save through the medium of the banking system increases, one of three things must happen in order that equilibrium may be preserved. Either the total volume of working capital must be increased; or the proportion of working capital built up through the aid of banks must be increased; or the proportion of bank assets represented by fixed as opposed to working capital must be increased.

6. Even if the increased desire of the public to entrust savings to the banks is fundamentally due, as in America in recent years, to underlying prosperity, the first two alternatives may encounter strong resistances. For one of the *causes* of that prosperity has been a speeding-up of the processes of production and merchanting, enabling a given annual output to be produced and marketed with a smaller pool of working capital, and one of its *consequences* has been an increased power of businesses to finance their own current processes of production without recourse to the banks. Hence it is doubtful whether conditions in some ways analogous to those of "trade depression" could have been prevented from developing in America in 1922-29 had not the banks been prepared to finance the expansion of fixed capital on a largely increased scale.

7. If the principal cause of the increased desire to entrust savings to the banks is a failure of confidence and of enterprise, the resistances to a counter-expansion in advances for the provision of working capital are of a different order. The will to initiate new enterprises or to expand old ones may be lacking; in particular, if important branches of industry are entangled in financial disorder and clogged with obsolete plant, as appears to be the case in England to-day, the offer to them of advances for financing current production is apt to resemble the offer of a pair of boots to a man who has no legs. In such circumstances a banking system which is prepared fully to "meet the needs of trade," as those needs have been commonly understood in England, may still be falling far short of what is required of it. For in this case, no less than in the happier case typified by America in 1922-29, what is *primâ facie* required is an increased willingness on the part of the banks to find ways and means of financing permanent investment.

8. I venture to remark, in passing, that the laudable attempts which have been made by some—alas! only some—of the English banks in recent years to explain and vindicate the character of their loan assets seem to me to have partly failed to appreciate the real nature of the criticism which may be brought against them. Bankers have been much concerned to show that a large proportion of their loans are devoted to "meeting the needs of trade," and only a small proportion to facilitating "financial" transactions or personal extravagance. What, in the peculiar circumstances of the time, they needed to be able to show, was that the overwhelming bulk of their loans were of such a kind that the money created as a result of them was brought easily and actively into touch with commodities, whether of a consumable or an instrumental kind. In a time of trade depression, a stock exchange loan which indirectly facilitates the placing of a new industrial issue, even a loan to an instalment finance company which facilitates the anticipatory purchase of cradles and coffins, is not necessarily anything for a banker to be ashamed of. The real trouble about loans to Hatry, even had he been honest, would have been not that he was a "financier," but that his ideas of industrial reconstruction did not apparently extend beyond the arrangement of paper transfers and fusions or comprise an active policy of purchase of tangible new structures or machines.

9. I am familiar with the arguments annually set out by bank chairmen against the "entanglement" of banking with industry. I do not consider myself qualified to discuss them from the practical point of view; but I earnestly hope that witnesses of greater experience will submit to the Committee suggestions, involving perhaps the formation of consortia on the German plan or of something analogous to the French Credit Mobilier or the Japanese Kogyo Ginko, for grappling with the administrative difficulties entailed. I must confine myself to urging the relevance of two theoretical propositions. (i) On the face of it the question of the proper character of banking assets is not one which can be settled *in vacuo* for all time, independently of the state of industry and of the phase that has been reached in what used to be called the trade cycle. Things that were not proper to do—though it does not apparently follow that they were not done—in 1920 might well be proper to do in 1930, and become improper again in 1935. (ii) The argument that because a bank's deposits are obligations at demand or short notice its assets must be "liquid" seems to rest partly—I do not say wholly—on an obsolete conception of the method by which the public, if so inclined, proceeds to withdraw saving from the banks. There is surely nowadays no serious danger of the public desiring to withdraw deposits on a large scale from the banking system *as a whole* in the shape of legal tender money. But if there is not, then, even though each individual deposit were payable on demand, the whole mass of deposits (though their real value may fluctuate with alterations in the spending behaviour of the public and consequently in the price level) constitutes a mass of monetary obligation almost as fixed and immobile as the most stagnant type of banking asset. This would be clearly seen if there were only a single deposit-banking corporation; and the desirability that it *should* be seen is, I think, a not negligible argument in favour of the unification of the banking system, presumably under some kind of statutory safeguard. I do not, however, wish to waste the Committee's time by discussing seriously such a proposal—only to urge that so far as the policy of giving long-period assistance to industry is hampered by an exaggerated fear on the part of the existing banks of "losing deposits," something ought to be done by combined action to allay that fear.

10. I turn now to a more disquieting problem. Is it certain that even in a closed country, even a banking system which took the broadest view of the nature of its permissible assets, could overcome unaided a tendency to industrial depression arising from the cause under examination—viz., the failure of private enterprise to absorb spontaneously the increment of saving committed to the charge of the banks? Technically, this question falls into two parts. First, is the doctrine that the volume of deposits lies wholly within the control of the banking system so watertight that in no circumstances could a banking system, freed from preoccupation about its reserves, fail to create as big a volume of deposits as it thought desirable? Might not even such a banking system fail to make headway against the flood-tide of repayment of loans and the unwillingness of business men to borrow even at very low money rates of interest if prices are falling, and are expected to go on falling, rapidly? I do not feel certain of the answer: when one takes into account that the banking system can expand its assets by way of investment as well as of loan, I concede that the difficulty suggested may be imaginary. I feel more certain about the second part of the story—namely, that the banking system may only be able to expand its assets in ways which do not ensure that the resulting deposits are brought effectively into touch with commodities, and may be unable therefore, unaided, to stem a fall or engineer a rise in the commodity price level. I would appeal to the experience of the Federal Reserve System in the autumn of 1927 in confirmation of this view.

11. Behind this contention lies a principle of great importance. Among the causes of industrial depression I attach leading importance to the temporary gluttability of large groups of particular human wants. This applies even to consumption goods, most obviously to those, like motor-cars, which are of a semi-durable nature, but also to those, like sugar, which are consumed at a blow. If the production of many types of such goods has been rapidly increased, as in recent years, the absorbent capacity of consumers may be very severely tested. To dish out money through the agency of the banking system may be an inadequate remedy if the purchasing power so obtained is held in the form of a potential command over goods in general instead of being expended on particular goods. And if this is true of consumption goods it is far more and more devastatingly true of the instruments of production and the materials of which they are made. A feature of modern industrial progress, partly aggravated by avoidable causes but partly inevitable, is that it proceeds discontinuously—in lumps and by jumps. A railway once built will be capable of serving the needs of a district for a generation, till it becomes time to double the track. Anybody ought to have been able to see in 1920 that the world was so clogged with ships that the shipbuilding industry was in not for two years of depression but for a dozen: and that it would not (to anticipate a little) be a good or sensible use of the Trade Facilities Act to invoke it for the production of new ships.

12. So far as consumption goods go, the chief remedy seems to be the rather unattractive one of the perpetual stimulation of new wants: certainly the nation that has practised this immoral art with most assiduity is that which has longest postponed the disease of industrial depression. "The National Kraut-packers' Association," I read some time ago, "has made America sauer-kraut-conscious in the short space of two years, thus redeeming the odium on one of God's gifts to mankind, and increasing consumption 20 per cent." There is, however, another palliative which, if the Committee is prepared to consider fairly advanced proposals, ought not, I think, to be ruled out of court off-hand. The saturation of particular wants is not in all or most cases permanent. Time is needed for the organisation of new channels of trade —to cite an instance which has been given, for the popularisation of wheat in the Pacific. Further, on the assumption that depression in the instrumental trades will not continue for ever, an increased flow of consumption goods will be needed for the sustenance of the instrument-makers when they are set to work. It is one of the paradoxes of economics that saving is the one thing that cannot be saved: saving that is allowed to go to waste to-day cannot be utilised to-morrow. But there is nothing inherently ridiculous about the policy of storing such consumable goods as are technically capable of it, in order that when the time is ripe for a new outburst of constructional activity, the materials of livelihood for those engaged in it may be forthcoming without the need for extracting them from contemporary consumers through the processes of inflation and enforced abstinence. This is the theoretical case for schemes of "valorisation" of raw commodities with the aid of banking systems and of Governments. I am aware that such schemes are exposed to many kinds of practical difficulty and risk. I would only plead that in considering them regard should be had to two points—first, that in default of them nothing can prevent producers, if they are strong enough, indulging in schemes for the restriction of output which are prima facie wasteful and anti-social; secondly, that as in the analogous case about to be considered, the consideration that such projects may not promise a market rate of interest is not necessarily decisive if the alternative is alternate periods of disorganised production and strangled consumption.

13. I pass to the better-worn field of instrumental goods. It has always seemed to me the merest common sense that public bodies, central and local, as well as semi-public bodies such as railway companies, electricity commissioners and so forth should intervene to organise and express a collective need for instruments and structures—rolling-stock, pylons, lavatories and what not—at times when the ordinary commercial demand for instruments and structures is in a condition of temporary saturation. The doctrine of temporary gluttability which I have tried to outline above is in direct conflict not only with the so-called "Treasury view" that such a policy of promoting public works absorbs resources which would otherwise anyhow be employed by private enterprise, but also with the doctrine, which has been maintained, for instance, by Mr. Hawtrey, that the public works are a "mere piece of ritual", achieving nothing which could not equally well be achieved by the banking system acting alone, through a sufficiently great alteration in its terms of lending. When the spirit of investment is really costive unto death, I do not feel confident that the most enlightened group of bankers have it in their power to administer a sufficient purge, unless they are backed and utilised by authorities even higher than they. It is to the organised will of communities, expressing itself through the machinery of representative government, that we must say:—

> Now if thou would'st when all have given him over,
> From death to life thou might'st him yet recover.

14. At the present time the need for such a policy seems to me more urgent than in the typical slump of pre-war days, for three reasons. First, with a retarded rate of growth of population and of world trade, instrument-gluts are liable to last longer than of old: the tail of one depression, so to speak, does not so easily get bitten off by the head of the next boom. Secondly, as a result partly of technical changes, partly of an increased sentiment in favour of the limitation of private profit derived from public utilities, the field of enterprise in which Government—in the broadest sense— is in any case naturally and inevitably involved has broadened, so that old arguments hinging on the demerits of so-called "relief works" have become largely out of date. Thirdly, a vigorous application of the processes of rationalisation to private industry, while it may expand the demand for certain types of instruments, is almost certain, as far as I can see, to diminish temporarily the demand for labour as a whole. And "temporarily" is in this connection a vague and elastic conception. There is something to be said for the ribald suggestion I have heard that Mr. Thomas should remain as Minister for Throwing People out of Work, Miss Bondfield as Minister for Keeping them out of Work, and that we should now appoint a new Minister for Getting them back to Work again.

15. Before leaving this part of the subject, I wish to emphasise two points. (1) The root difficulty to which I have tried to draw attention above does not depend primarily, so far as I can see, on our attachment to an international gold standard. It might occur in a country with a closed monetary system, and it may occur in the world as a whole. Nor does it depend primarily, so far as I can see, on the existence of a profit economy. It might occur in a Socialised State, and it might occur in a community of small producers working on their own account, all of whose incomes contracted instantaneously with a fall in price of the commodities which they produced. This is not to say it is not gravely exaggerated if many money incomes are fixed by law or custom in such a way that the brunt of falling prices is concentrated on a limited class of entrepreneur-employers. (2) I have developed my analysis with reference to a trade *depression* alone, so as not to weary the Committee with irrelevant matter. But I think it important to observe that there are probably many people, of a somewhat vocal type, who would agree with my conclusions as to the present need for a forward policy on the part of banks and public authorities, but who would put the case in general terms which I should regard as erroneous, and the application of which, in other circumstances than the present, I should expect to lead to evil consequences. The doctrine, popular among some schools of monetary reformers, and enshrined at one time in a Report of the Federal Reserve Board, that there is no danger that credit will be issued to excess as long as it is issued only for "productive" purposes, seems to me fallacious. There is no pre-ordained harmony between, on the one hand, the extent to which entrepreneurs will wish to have recourse to the banks for the wherewithal to build up industrial capital—whether capital in general or working capital in particular—and on the other hand the extent to which the public will desire to keep its savings crystallised in the form of bank deposits. The doctrine that it is the whole duty of the banking system to respond passively to the alleged "needs of trade" might become, in other circumstances, a potent instrument of inflation and of oppression of the consumer.

II. *The Level of Real Wages.*

16. If the workpeople in a country demand a real wage in excess of the economic value of their work, economic theory predicts two reactions, one more or less instantaneous, the other more or less delayed. The first is—the general willingness of entrepreneurs to spend money on the hire of labour remaining still unimpaired—a reduction in the numbers who will find work; the second is a lessened willingness on the part of entrepreneurs to provide capital and display enterprise, caused by the shrinkage of profits, and leading in its turn to a further diminution in the numbers who can find employment at the wage insisted upon.

17. A shrinkage of net profits due to the financing of social services out of high direct taxation will tend to produce the second effect, in a degree which seems impossible to determine except by the method of trial and error: but it will not tend to produce the first, i.e., it will not operate as a direct tax on employment. I share therefore the view that it is a less dangerous method of maintaining and advancing the working-class standard of life than a militant wage policy. Among other things the burden will be shared by the commercial, financial and professional classes who employ little labour, instead of being concentrated on the class of industrial entrepreneurs. I think however there has been a tendency among some authorities, particularly the members of the Colwyn Committee on National Debt and Taxation and some of their expert witnesses, to exaggerate the difference between the two methods of procedure.

18. Insistence on an uneconomically high real wage may come about as a by-product of the situation discussed in Part I.—i.e., it may take the form of a maintenance of money wages in the face of a falling price-level: but it may not. Personally I am inclined to attach less importance than some people to the alleged rigidity of *money* wages under all conditions, and more to the increased determination of the working classes, backed by powerful Trade Unions and universal suffrage, to secure under all conditions a handsome share of the *real* income of the country. The difference of emphasis is important both in connection with the existing situation and in connection with certain proposed remedies. (*a*) The spokesmen of the working classes are justified in pointing out that the cost of living has not fallen in recent years anything like as much as the level of wholesale prices. The reason for this seems to be partly frictions, increasing the incomes of retailers, but partly also the fact that efficiency in distribution cannot be expected to increase as fast as efficiency in extraction and manufacture, so that a natural result of technical progress in agriculture, mining and industry is to increase the proportion of the community's real resources which have to be employed in the processes of merchanting. (I would appeal to the occupational statistics issued annually by the Ministry of Labour in support of this thesis.) The inference is not indeed that the industrial workers are not demanding uneconomically high wages, but that they cannot quite justly be charged with ignoring changes in commodity prices. (*b*) If Protection were introduced on a sufficient scale to cause an appreciable rise in the cost of living, I feel little doubt that pressure to raise money wages would follow at no distant date. In this event the alleged efficacy of Protection as a cure for dis-equilibrium between prices and wages would prove nugatory.

19. I find it very difficult to express an opinion as to how far the maintenance of an uneconomically high real wage level is a *practically* important cause of unemployment in this country to-day (i.e., I rule out such speculations as that, if wages fell to a penny a day, we might all employ a dozen coal-miners as body-slaves). If importance is attached to the theory of saturation set forth in Part I, it would follow that the demand for labour in many directions today is pretty inelastic, in the sense that considerable wage concessions would not be likely to lead to a great increase in the numbers employed. I suspect that this is true *par excellence* in shipbuilding: that it is true in a less degree of the leading textile trades: and that it is true also, for rather different reasons, in the case of certain "sheltered" industries, notably railways, where the numbers who can find employment are dictated within fairly narrow limits by the size and nature of the fixed plant with which they have to co-operate. I am inclined to think that one effect of rationalisation may be to assimilate industry to transport in this respect—i.e., to produce such a close and intimate co-ordination between an elaborate fixed plant and the labour-force required to work it as to leave little room for the operation of what economists call the principle of substitution—little inducement, in other words, to the entrepreneur to take on more hands if the rate of wages falls. A completely rationalised world might turn out to be one in which, if organised so as to obtain their economic worth, a certain proportion of the workpeople could find employment at very high wages, while the remainder could hardly find employment on any terms at all.

20. For these reasons I should, I think, expect smaller results on employment from a successful drive against wages, unaccompanied by any other change, than some people would. I should not, however, if I were Minister for Employment, feel justified in refusing an offer by the Trade Union Congress to bring all wages down by 10 per cent.; and if it were accompanied by a vigorous effort to revive the demand for labour by other means, I should hope for appreciable results on the volume of employment.

III. *The Gold Standard.*

21. A banking system which would otherwise find no insuperable difficulty in transforming into industrial capital all the saving committed to its charge may on occasions be prevented from doing so by the necessity of adhering to rules or conventions about the relation of its deposits to its reserves, which in turn are, or are thought to be, necessitated by its adherence to an international gold standard. So far as difficulties of this kind are connected with foreign investment, I postpone them to Part IV; so far as they are connected with international pressure on the supplies of gold, I proceed to discuss them now.

22. If the world had reached equilibrium in its gold-using habits, I should be inclined to take a less gloomy view than some economists of the probable gold situation during the next few years. According to the best authorities, the supplies of gold available for monetary use are still increasing at the rate of about 2 per cent. per year—that is, twice as fast as the world's population. If they are increasing less rapidly than the world's production of commodities (i.e., if the production of commodities per head is increasing by more than 1 per cent. a year) that is not, on the face of it, an evident evil. At the same time, according to the same authorities, the annual output of gold from the Rand is likely to diminish rapidly from about 1939. Moreover, there is every reason to fear that a number of European countries have not abandoned the hope of substituting gold on a large scale for foreign exchange in their banking reserves, and even of restoring a gold circulation. The difficulties of freeing gold in the United States by substituting Federal Reserve Notes for Gold Certificates, and by substituting "eligible paper" for gold in the reserves of the Federal Reserve Banks, seem to be greater than are always appreciated on this side of the Atlantic. In these circumstances I concur with the general body of economic opinion in attaching the highest importance to concerted action among Central Banks to ensure the rational use and distribution of available gold supplies. If I do not enlarge on this subject in proportion to its importance, it is because I feel I have nothing to say which is not likely to have been put before the Committee with great emphasis by other witnesses. As an obvious objective of policy I would mention a concerted move towards the reduction of the present extremely high legal reserve ratios of Central Banks—a move in which we might presumably have to play our part by a relaxation of the law or practice with regard to the fiduciary issue.

23. There remains the question whether, pending or in the absence of international action, this country can safely take any steps in the relaxation of banking rules. That there remains an element of play in our system, even under an international gold standard, and that that element of play can be used to great advantage has been, I think, abundantly proved by the authorities of the Bank of England in recent years and especially in 1929. Could that element of play be advantageously increased? I do not think we can have a gold standard and yet expect to behave as if we had not got one; but I think there is one change at least which deserves the serious consideration of the Committee, and which would be the easier to adopt in that we should not be setting an example of looseness to our neighbours, but only taking a leaf out of their books. In the United States and some other countries, the banks are allowed to keep a substantially smaller proportion of reserves against time than against demand deposits. Thus an increased willingness on the part of the public to do its saving through the agency of the banks, so far as it manifests itself in an increase of time as compared with demand deposits, automatically frees the banks to expand their loans or investments. If the American rules were applied to the English banks, and if the existing proportion between current and deposit accounts could be maintained, the aggregate deposit liabilities of the banks could be increased by 70 per cent. Of course, in existing circumstances that proportion could not be maintained, and I do not suggest that if it could it would be wise or practicable to effect such a sweeping expansion at one blow. But I would press the Committee to consider very seriously whether the principle of differentiation between demand and time deposits ought not to become embodied, whether by law or custom, in our banking practice.

24. If the Committee are in a mood to consider fairly sweeping proposals, there remains the possibility of altering the English Currency Law in such a way as to bring the gold reserve into connection with the purpose for which it is, in fact, required, namely, meeting foreign drains, instead of a purpose for which it cannot be required, namely, the cashing of notes. It is difficult to make a specific proposal without knowing more than I know about the composition of the Bank of England's Other Deposits, other than bankers' balances. But for the sake of illustration let us suppose that the law ran that the gold reserve must never fall below twice the bankers' balances. Under the law as it stands, the withdrawal to-day of £60 millions of gold for export through the agency of the joint stock banks would reduce the Bank of England's banking reserve to zero, and necessitate a violent contraction of credit by the joint stock banks. Under the law that I have suggested, the Bank of England, retaining £100 millions of gold, would be able to keep the bankers' balances at £50 millions, i.e., to reduce them only by £15 millions. Thus a substantial buffer would be provided against the disturbing effect of foreign drains. Yet the sacred principle of proportionate reserves would be preserved, though in an unfamiliar form; and the hand of the Bank of England would be strengthened in resisting irresponsible pressure to *increase* substantially the basis of credit in consequence of casual increases in its gold holdings.

IV. *Disturbances in the Balance of Payments.*

25. Under this heading there fall due for discussion a number of matters whose inter-relation is by no means easy to determine.

26. I share the view that the sums which the inhabitants of a country, taken as a body, desire to invest abroad, and the sums which are at their disposal for investment, as a result of a favourable balance on trading account plus the receipt of interest on past investments, are determined by partially independent forces; so that under a gold standard harmony can only be preserved between them through manipulation by the monetary authority. I say "partially independent," because I also share the view that under ordinary conditions there is a certain natural connection between them. A country which is poor enough to want to borrow is *probably* also simple enough in its economic structure to have a keen demand for foreign specialities. A country which is so highly industrialised as to be constantly seeking new foreign markets in order to exploit the full advantages of large-scale production is *probably* also rich enough to desire to invest heavily abroad. Were such harmony universal,* little trouble would be caused to monetary authorities: each country would smoothly and easily get the amount of gold which it deserved, and the level of money incomes ruling in it would accurately reflect its combined position as a trader, a recipient of interest, and a maker of fresh investments. There would be no cause for alarm if the level of money wages and other incomes were found to be twice as high in England as in (say) Germany, nor any justification for paying attention to the complaint of particular trades which found this fact inconvenient. But a country in which this natural harmony is broken, through an increase in the desire and/or a diminution in the ability to lend abroad, may find itself with an uneconomically high level of domestic prices, including money incomes, as compared with the rest of the world, and may suffer from unemployment until the situation is corrected by an outflow of gold and a contraction of credit and of money incomes.

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* Post-1924 Germany is an admirable illustration of flagrant violation of the rule.

27. How far is such a rupture of harmony a cause of England's troubles to-day? There are several points to be discussed.

28. (i) Is there really evidence that " the English price level " is 10 per cent. out of equilibrium with " the world price level "? The difficulty of answering arises from the double difficulty of finding a thing to be called the price level and a place to be called the world. The dispute over the return to the gold standard in 1925 was conducted by both parties in terms of a comparison between England and America, and at first in terms of wholesale prices. When it became evident that wholesale prices were an inadequate guide, appeal was made to cost-of-living figures, of which unfortunately the two available American series told incompatible tales. But if what we are really interested in is cost of *production*, there is no reason for stopping short at cost of *living*, and we are driven back on *wages*. But wages are notoriously *lower* in England than they are in America. Hence we are driven from America (being careful to avoid Japan, where " internal prices " have ruled far higher than in England) to the Continent of Europe, and particularly (skirting Italy and Scandinavia) to France and Belgium. But the low level of gold cost of living and wages in France and Belgium is far more directly the result of what *they* did in 1927-28 than of anything that *we* did in 1925. Further, the whole theory of a 10 per cent. crime in 1924-5 depends on the assumption that "equilibrium " had been reached in 1923-4. But can it be confidently asserted that the true post-war equilibrium was reached in a year in which, for very good reasons, America was withholding that stream of financial aid to Europe which we surely have some reason for regarding as a " normal " feature of the post-war world? And, finally, who is prepared to say how far the existing relative levels of money incomes in different countries are " unnatural," and how far they reflect, as they presumably did before the war, the relative pull exercised by those countries on the supplies of gold and other internationally traded goods? For these reasons, even if the scheme for a concerted reduction of British money incomes by 10 per cent. were politically feasible, I am afraid I should feel it was based upon a quicksand.

29. (ii) These reflections lead naturally to another. The terms on which we conduct our trade with the rest of the world seem to have been subjected since the war to two conflicting influences. On the one hand there has been a relative glut of certain things which we supply, notably coal and shipping services, with the result that we have had to dispose of them on unfavourable terms. On the other hand, there has been a relative glut of many of the things which we buy. The latter force has been on the balance the more powerful, so that, while the price of our exports, as recorded by the Board of Trade, is 60 per cent higher than in 1913, the price of our imports is only 35 per cent. higher. These figures overestimate the difference, for they do not include shipping services among exports, and some of the exports whose price change is measured have probably improved in quality and intricacy so as to embody larger amounts of British labour and skill. But, taking the figures as they stand, they suggest that we are able to obtain, for a given volume of exports, a volume of imports greater by 18 per cent. than in 1913. One way of interpreting this fact is to say that we are trying to exact too high a price for our exports, with the result that we cannot sell as many as we should like. But a more natural way is to say that as a result of the change we could afford to specialise a smaller proportion of our productive equipment in procuring the import of the foreign goods and securities that we require. For so startling an improvement in the terms of trade is *primâ facie* advantageous to the country to which it occurs. If it could immediately and without loss transfer to other uses the factors of production specialised in the production of goods for export, the change would be unequivocally advantageous. If it cannot, those factors of production will suffer the familiar phenomena of " trade depression "—low profits and falling demand for labour; and it becomes a question of calculation whether to incur the losses of transferring them, or to permit them to continue to work at a lower reward than that which can be obtained in other occupations. If the latter plan is regarded as the lesser evil, it must not be hastily inferred that the level of money incomes in the non-export trades is " too high." To use more familiar language, the level of incomes in the " sheltered " trades may, more faithfully than the level in the " unsheltered " trades, reflect the general level which the country could economically maintain if its productive resources were distributed in a perfectly appropriate manner between making for export and making for home consumption.

30. Thus in these circumstances the forcing of exports at a sacrifice on an unwilling world is at best a *pis-aller*: whether it is the best policy available depends on whether the change in the terms of trade which is the cause of all the trouble is likely to be reversed, and what form the reversal will take. Personally, when I first became aware of the situation, I expected that before long it would be reversed; but in fact, after some recovery from the extreme conditions of 1921, it has shown in recent years a remarkable tendency towards stabilisation. (Indeed the position in quite recent months has recalled that of 1921: for the world-wide fall in the prices of raw products which has attracted so much attention has been a fall in the things which Englishmen consume rather than in the things which they produce. It is highly paradoxical that such a development should injure us: but it may nevertheless do so, in so far as it reduces the quantity of exports which we need send in return for our imports—in more familiar language in so far as it reduces the power of Australian and other producers of raw products to purchase our goods, and so produces dislocation of our export industries.) The natural inference would seem to be that we should make a special effort to absorb in useful occupations at home the productive resources which are being rendered superfluous in the export trades. Thus the practical outcome is to strengthen the case for the policy of vigorous home development advocated in Part I of this memorandum.

31. If at some future time the terms of trade swing against us, it is likely to be as part of a more far-reaching change—namely a partial closing of those gaps in the comparative capacities of different countries for following different pursuits on which the advantages of international trade depend. If that occurs, it will still be true that England will have to adapt her economy to a smaller volume of export trade than she has been used to in the past—not, as at the present moment, because she is getting her imports so cheaply, but for the less agreeable reason that the circumstances in which it paid the world to let her be its workshop will have partially passed away. But the moral seems to be the same—that the more trouble she takes over making the requisite change in her economic organisation the better.

32. This argument for increased national self-sufficiency bears a superficial resemblance to the arguments for Protection: but it will be found, I think, that the resemblance is more apparent than real. It is one thing to diagnose that natural forces are at work to extrude productive resources from the export trades, and to prepare suitable asyla for their reception. It is quite another to aggravate the problem of transfer unnecessarily by measures which, by cutting into well-established channels of reciprocal trade, by provoking retaliatory increases of tariffs, and by enhancing the cost of instruments and semi-manufactured materials, would accentuate the pressure on the export trades.

33. (iii) The validity of the foregoing argument depends partly on the assumption that we are satisfied with the volume of our net new annual foreign investment. At their increased buying-power, our present volume of exports would purchase a volume of imports smaller by 3 per cent. than we took in 1913. In actual fact our volume of imports is 21 per cent. greater than in 1913. This is only possible because we have been content to buy fewer foreign securities. How far has this reduction in our net foreign lending come about spontaneously, and how far has it been the result of continuous pressure by our monetary authorities? I do not find it easy to determine.

34. The theory that our investors are inclined to make such large permanent investments abroad that our account can only be balanced through the attraction of short-term balances seems to me to find some confirmation for the troubled years 1925-7 in the available figures. Those for 1928-9 tell no such tale, but it is, of course, common knowledge that in the latter year at least the volume of long-period foreign investment was itself drastically repressed by high bank rates and unofficial embargoes. At the same time I am tentatively inclined to ascribe our exchange troubles in 1929 far more to the vagaries of Continental Central Banks, indirectly enforcing the withdrawal of short-term balances, than to an abiding pressure on the part of British investors to transfer their fortunes abroad. The figures of the American balance of payments for the year ending June, 1929, suggest that even the power of high call-rates in New York to attract foreign money may be exaggerated. On the other hand, if Sir Robert Kindersley's estimates proved correct, the situation in 1929 was relieved to an altogether exceptional degree by the operation of sinking funds and the repayment of maturities of foreign loans, which together amounted to no less than £55 million.

35. On the whole, in this connection as in connection with the general level of money incomes, I am inclined to attach rather less weight than some authorities to international disequilibrium as a cause of our troubles, as compared with factors which might operate even within a closed system. But I feel sufficiently aware of the *possibility* of disequilibrium, sufficiently uncertain of the future course of events, and sufficiently sceptical about the advantages of vast new foreign investments to a country in our position, to wish to see the present unofficial powers of control by our monetary authorities over the volume of foreign investment strengthened and regularised in any way that may be practicable. I do not feel that I have sufficient technical knowledge to make useful suggestions; but I am attracted by the idea of differential taxation.

4697. *Chairman*: Gentlemen, this afternoon we have with us Mr. D. H. Robertson. You are, I understand, a Lecturer in Economics in the University of Cambridge and a Fellow of Trinity College?—Yes.

4698. I think you have made a special study of the principles of political economy for many years?—From the theoretical side, yes.

4699. And you have also made many contributions to the literature of the subject. You have read the Terms of Reference under which we are sitting?—Yes.

4700. You will have observed that, while they are very wide in their terms, the operative part is that we are to make recommendations, if we can, calculated to assist industry and employment, and therefore we have throughout to look at the theory of these matters as far as possible with a practical eye. We are very much obliged to you for the preparation of the statement which we have in front of us in print. Frankly, to some of us, if I may say so, at any rate to the Chairman, the concentration of thought in it has proved somewhat difficult to follow, and I think we could most usefully spend our time this afternoon by going through it, expanding it and expounding it, if I may so put it. I should like you to develop some of the points in your statement. Just to start off—you say that you have been able to classify or categorise the causes of trade depression under four heads?—For convenience, yes.

4701. You have started by inventing, I think, the most inelegant word that I have seen in the English vocabulary—it is quite new to me, I am glad to say—"gluttability." By that I suppose you mean the circumstances when the limit of saturation of wants has been reached?—Yes.

4702. Is that your meaning?—Saturation, I think, will do as well.

4703. It means this, that there is in point of fact a limit to wants?—At the moment.

4704. And when that limit is reached you are in the position of providing food for a person who is not hungry; the food has lost all its value?—Yes.

4705. That is another picturesque way of putting it?—And that may be an obstacle to awakening the spirit of enterprise.

4706. You have begun to examine that phenomenon first of all from the point of view of the relationship of banking to it. Perhaps you will develop that aspect of the matter. Take the first paragraph. Do you mean by "banking" banking at large; that is to say, both central banking and commercial banking? Or are you speaking of commercial banking only?—I am thinking of the whole banking system, whatever its exact organisation may be. The point of paragraphs **2** and **3**, I think, is to make it plain that I accept the ordinary doctrine that the total volume of bank deposits is a thing which is in the control of the banking system taken as a whole, the central bank and the ordinary banks working together, and is not within the control of the public; so that if the public are seized with a desire to save, that does not automatically in any way increase the amount of the banks' money. It might have, in some previous kind of civilisation, when the public took money and planked it into the bank; nowadays that does not happen.

4707. To the ordinary layman like myself the idea is this: I put my money in the bank, the money accumulates there, and the bank puts it out to usury in some shape or form, and the bank's capacity to lend depends on what it receives itself. That is, of course, a very primitive view of banking. The point is, the bank not only receives the money which I deposit, but is in a position to create money by authorising me to draw upon money that I have not put in?—Yes. I think you would find it very difficult to put anything into the bank which is not there already.

4708. That is just the kind of thing which is so simple to the expert but extremely puzzling to the layman?—It simply means that you would have an account at the bank which you would not draw upon; if you wished to save instead of spending your money you would leave the account undrawn upon. That would not of itself affect the aggregate of deposits of the whole banking system, but it would affect the rate at which they were being used.

4709. *Professor Gregory*: You are assuming the absence of the gold standard. In the case of the gold standard obviously you can increase the volume of your bank deposit without reducing somebody else's?—If I take gold into the bank?

4710. Yes. I want to make that qualification clear?—Yes.

4711. *Mr. Brand*: In the normal course, either somebody else's deposit is transferred to you or the bank creates a deposit if it makes a loan to you?—Yes. The bank only creates a deposit if the state of its reserves warrants it, and that is a thing which is not to a great extent in the control of the ordinary public, it depends on the gold situation and the policy of the Bank of England, and not on the habits of the public.

4712. *Mr. Frater Taylor*: It would mean if you paid a small cheque of £100, that it would go from one bank and reach another?—Yes. You may move the £100 from one bank to another, but the banking system as a whole is not affected.

4713. *Mr. Tulloch*: You may very well have economy in the actual circulation, and the increased payments into the bank would be productive of further credit?—Yes, if you did your saving in cash.

4714. *Chairman*: Just go on with your theme?—The relevance of that to the problem is that you may have the public anxious to save, and to save through the mechanism of the bank, but the banking system not responding to that situation if the gold situation and the policy of the Bank of England are not in harmony with the desire of the public; that the public may be trying to save, but the banks may be unable to put that saving effectively at the disposal of industry, if the state of their reserves does not warrant them in creating additional credit at the same time.

4715. You mean there are two different causes in operation pulling against each other—on the one hand the desire of the public to save and on the other hand the Central Bank's policy, which is pulling the other way?—It may not be really pulling the other way, but it may not be doing anything to make effective the saving policy of the public.

4716. *Mr. Brand*: May I ask what you mean by "make effective"? What I am not clear about is what happens to saving that is not used. Supposing I put £1,000 in the bank; I think I have saved that and that it is being used in the community in some form or another. Is your point that unless the banks use that saving, and it reaches industry in some form or other for the purpose of creating more wealth, that saving is lost?—It is lost in the form of a general lowering of prices and increase of consumption for the expenditure of a given money income. The result is, if it has been on a considerable scale, to produce a sagging of the price level, which means that although you save you do not in fact have to go without the things which you have expressed your willingness to go without.

4717. *Mr. Tulloch*: It is necessary, then, if the banks are to give effect to the desire to save on the part of depositors, that they should create loans?—That is the point.

4718. That is the whole basis?—Yes.

4719. *Mr. Keynes*: Supposing Mr. Brand saves his £1,000 and is the richer thereby, and there has been no increment to the wealth of the community, who is the poorer?—I suppose that those are the poorer who have money obligations to the bank—previous creditors of the bank who owe the bank certain definite sums of money find that the real burden of their debt is increased as the result of a fall in the price level.

4720. Is not that balanced by the depositors of the bank finding their deposits worth more, apart from Mr. Brand having saved £1,000; the depositors of the bank who have lent in terms of money are richer?—Yes, they are richer.

4721. Their increase of wealth would balance the decrease you mention. So that you would still require to balance Mr. Brand's £1,000?—No, I should have thought not. Mr. Brand is now one of the depositors who has gained in wealth.

4722. Yes; but suppose the change in the value of money is one per cent. then Mr. Brand's £1,000 is worth £1,010; that accounts for £10. But you have got to account for the bulk. Do you think it is represented by the losses of the business men who have to sell their goods at reduced prices without their costs of production falling?—I do not feel sure of that. The thing that I feel sure of is, that as a result of what has happened there has been no addition to the capital wealth of the community, and that I think is all that is necessary for my argument.

4723. *Chairman*: What exactly, apart from the underlying theory, which you have been studying, is the operative part of your evidence? You have discussed the gluttability of wants. Put yourself for a moment in our position, as being desirous of making a practical recommendation within the understanding of the people. What is the practical point; we would like to know what the goal of that argument is?—The goal of the argument in this first section is, that the policy of the banks is a thing which ought to depend to some extent on the state of trade, and that where this condition of gluttability appears to exist there is a special case for the banks enlarging the scope of their investment.

4724. I quite understand that banking policy ought to be dictated by, or at any rate be in sympathy with, the trade movement, but what is the phenomenon that the banks are to note and observe in connection with this gluttability of wants; what is the actual economic phenomenon?—Severely falling prices and much unemployment.

4725. Those are the phenomena?—Yes. And when those conditions prevail there is a case for the banks helping, and financing permanent capital for industry as well as floating capital.

4726. Take it from that point of view. The banker reads his newspaper and sees that unemployment is rapidly on the increase, and prices are falling on the market. Do you say that, having observed those two critical phenomena, he ought to diagnose from them that there is something wrong in the financial position, and that he has the means of arresting that process? What are the means at his disposal at the present time for coming to the rescue of unemployment and falling prices?—It depends whether one is to assume that his reserves are fixed. We are taking the position of the ordinary banker, who cannot control the Bank of England's policy.

4727. Let us assume that Mr. McKenna, sitting in his parlour, notices that unemployment is increasing and prices are falling; what can he do?—I assume he is unable to affect the policy of the Bank of England, therefore he cannot expand the volume of his loans to a greater extent than will make his deposits about nine times his reserves.

4728. *Chairman*: He must preserve his ratio. We will look at what Mr. McKenna can do first, then at what the Bank of England can do, and then at what the two can do in conjunction. (*Mr. Keynes*): Is it not better to take first of all what the Bank of England might do? As I understand, we have from the witness two recommendations—one as to what the Bank of England can do, and the other as to what the joint stock banks can do. (*Chairman*): I am not disturbing your sequence, am I?—If we are following the sections of the Memorandum I am concerned first with what the ordinary banks will do.

4729. *Mr. Lubbock*: Supposing the banker has sufficient cash to build up a greater superstructure, the first thing he does is to put it out to the discount market?—Exactly.

4730. Would you suggest he should consider investing in long-term industrial securities?—I think he should do so in certain situations more than in others.

4731. *Chairman*: Dealing with the banks as they stand, assuming that they have their existing powers, how far can they combat those phenomena of unemployment and falling prices?—I suggest in paragraph 8 that they should take the trouble to make such loans as will bring the money created as a result of those loans rapidly and easily into touch with commodities, whether of a consumable or an instrumental kind.

4732. Again, what does that mean in practice? What is Mr. McKenna to do to-morrow morning, so to speak?—I think it means that he has got to examine the character of his loans not from the point of view which he naturally would, of whether they give good security or not, but from the point of view of what effect they will have on the level of commodity prices and unemployment.

4733. *Mr. McKenna*: We do that now. We consider whether a particular loan will make a wheel turn or not, and if it will not make a wheel turn we do not lend. (*Chairman*): You look at the quality of your loans. May it not be that some loans on the face of them may look unproductive—take Stock Exchange loans—yet while on the face of them they do not appear to be directly assisting industry they may well be indirectly assisting industry?—I agree.

4734. *Chairman*: Therefore it is not quite fair to apply that remark to all bank loans when some of those which seem on the face of them not to be assisting industry may in fact be of very great assistance? (*Mr. McKenna*): We should regard stock-broking business as industrial, we would then lend money to facilitate any business quite readily. —On the other hand, there does seem to be some evidence that a certain number of banking loans to finance are not of that kind, but are simply facilitating transfers on paper.

4735. *Chairman*: Pure speculation?—Perhaps not pure speculation, but financial reorganisation of a kind which does not directly create a demand for new instruments or structures.

4736. The banker in question examines his loans to see how his money is being utilised; where his loans are going?—Yes.

4737. He will classify them, and he will find that some of them are directly going to industry, some of them to the Stock Exchange, and some in other different ways. But what is the practical upshot of his analysis; having seen where his loans are going, what will he do?—He will try and make as many as possible of them go in ways which do directly create money to buy commodities and employ labour.

4738. *Chairman*: It takes two to make a bargain, just as it takes two to make a quarrel, and unless somebody is coming to him to ask for loans to effect those purposes, how can the banker of his own initiative do anything? (*Mr. Tulloch*): This is your "sauerkraut" point, is it not?—Yes, in paragraph 7 I raise a doubt as to whether, if it is the general view that the banks will only lend money for financing current needs, industries will not be shy of coming to the bank, and, in fact, will not be able to show a need for working capital if their fixed capital is in such a state that they cannot extend production. But what I am really suggesting throughout the main part of this Memorandum is that it may be right that the English banks should come to approximate more nearly to the practice in other countries, and find some way of financing fixed capital as well as working capital.

4739. *Mr. McKenna*: I would interrupt there, because the question implies that the banks do not get *bona fide* applications for loans which would cause wheels to turn which nevertheless they have to refuse. My own experience is that there are many such applications which the banks have to refuse, because they have not the money. I know my banking colleagues would not agree with me in that statement, but we have had evidence in this room from intending borrowers of other banks that they have been refused. I had a case before me only last week of another bank where the borrower came to us because he could not get the money he wanted through the other bank, in respect of business of the kind to which you refer, and we were unable to make the loan also, because we had not the money. (*Mr. Keynes*): I asked one of our bank witnesses, who had said that he never or seldom refused an application for a loan, what he would do if I came to him wanting to purchase a house for myself, and offered him good security and asked for a loan for that purpose. He replied that he would be reluctant to make such a loan unless he had the assurance from me that I should be able to repay it in a comparatively short period. Would you consider that that was the right answer to make?—No, not in the present circumstances.

4740. *Chairman*: Does it not come to this, that in your view, in the present emergency, the banks should reconsider their policy, and be less chary of locking up their funds?—That is what it comes to.

4741. And in order to do that they should restrain the extent to which they require to keep their assets fluid?—Yes.

4742. And in your view they might take greater risks in that respect?—I am suggesting that that desire to keep assets liquid is in part a survival of a state of affairs which has passed away, when the individual bank was exposed to its depositors coming and asking it for cash, and that at present if depositors want to withdraw savings from their bank it does not take the form of asking for notes, but of spending their money more rapidly. From the point of view of the banks as a whole nothing is withdrawn from the banks and there is no great danger that there will be.

4743. Then what is your criticism? Is your criticism that it is a great temptation for a bank to get its money tied up in some particular industry?—I think it is largely a question of the phase of the trade cycle which is prevailing at the moment, that at a time of great trade activity, such as 1919-1920, it was a great mistake for the banks to finance capital construction on a large scale, because private individuals were doing it fast enough, but when industry is very depressed the policy of the banks ought to alter accordingly, and they should be readier to be tied up—of course, exercising their judgment on the nature of the schemes which they promote.

4744. Has it occurred to you that possibly the provision of long money ought to be met by some new form of financing organisation, rather than by so complete a change of the policy of British banking? —Yes.

4745. You must admit that in the past British banking has been amazingly successful. It has been the admiration of the world, and it has been worked on certain principles. One is reluctant to disturb a policy which has worked well, unless one is perfectly satisfied that a change is necessary. We have had a considerable amount of evidence that there is a gap in the credit machinery of this country and that some organisation is required to fill the gap. Is it not rather doubtful whether the banks are the proper people to do that?—I should have thought that they were the proper people to lend a hand in it, if not by individual action, then, as I have suggested, by some sort of concerted action working through a financing company. Since I began to think about this Memorandum there has been the announcement of the new Company. I do not know what that amounts to, or will amount to, but naturally I was very glad to see it. It was very much on the lines of what I had been thinking.

4746. *Professor Gregory*: I am not quite clear whether the suggestion of the special institution would meet the case if it is your point that, in the presence of the desire to hoard or save in terms of money as a general policy, what you want is somebody to take a risk and create additional credit. Supposing you set up an organisation, that transfers a certain volume of deposits from the joint stock banks to the new bank, but it does not actually increase the aggregate which can be lent?—I think it produces the same effect on prices and employment whether you increase the aggregate amount of money or whether you make the existing volume of bank deposits circulate more rapidly, and if the result of the existence of this new body was to make people draw cheques on their accounts at the joint stock banks in its favour it would, I think, come to very much the same thing in its effect on prices and employment.

4747. *Mr. Tulloch*: Supposing there is no restriction at the moment on the banks creating further credit, supposing everybody can get what they want, that is not going to solve your difficulty. You have written a great deal on the gluttability of wants, and you would still have the question of the wants being satisfied?—I quite agree, and I do not believe that in a certain condition of stagnation the banks alone can solve the problem.

4748. In paragraph 12 you deal with the sauerkraut question, and I was rather interested in that, but it seems to me it is quite outside the province of a bank to stimulate the new wants which would involve the creation of further credit?—I do not think I would agree that it is outside their province; I think I would agree it is outside their power if the situation is so bad.

4749. It is very difficult for the banker in his chair to stimulate these new wants. But in some degree they do affect the question of employment, do they not?—Supposing an industry thinks it wants a lot of new plant, the bank can increase the consciousness of that want in the minds of those who want it, to some extent.

4750. Supposing the bank has knowledge of the desirability of the want it can encourage the desire? —Yes.

4751. *Mr. Frater Taylor*: It comes back to your point of permanent investment?—Yes.

4752. *Lord Bradbury*: Would not that policy tend to defeat itself? When a bank makes a loan for a short period and keeps its funds liquid, when that loan is repaid it can make another loan. If, on the other hand, the loan is made for a long period and is not easily repaid, is not that portion of the loan which is spent on the purchase of commodities sterilised during the period of the loan?—I do not think the money is locked up. It is lent to industry, the firm uses it to pay wages, it is expended by the wage earners in beer, it circulates; I think it is a mistake to speak of money being locked up in loans. The money gets loose.

4753. Owing to the present state of my reserves I can make a new advance of £1,000 to buy raw material. That loan is repaid in a month or two months; then at the end of those two months I can make another similar advance?—Yes.

4754. There is a further £1,000 available for purchasing raw materials. If, on the other hand, I lend that £1,000 for the purpose of purchasing a house and that loan remains outstanding for three or four years, during that period I cannot lend the money to my depositors?—No, but I do not think there is any difference in the amount of money available for purchasing, because in the case of the short loan the money comes back to you and you simply lend the money out again; it is not additional. In one case it is a revolving fund, in the other it is not.

4755. *Mr. Keynes*: Do you hold that a bank can increase the velocity of circulation by the way in which it selects its loans?—I think so.

4756. The way you select only affects the first spending of the money, and that would have very little effect on the circulation; after that it goes into the general pool and the influence of the bank is gone?—If the banker makes a loan to somebody who then simply proceeds to keep the money on deposit, that clearly has not done any good from the present point of view, but if he makes a loan to an industry which wants to recondition its plant, then I see no reason why that money should not continue to circulate.

4757. The velocity of circulation depends upon how the money is used through a period of years?—Yes.

4758. Why should the first use of the money and the repayment of a particular loan determine all its subsequent history?—I do not think it can.

4759. *Mr. McKenna*: It does a little?—It does a little, for the time being.

4760. If the first impetus of the money is in trading it will retain that impetus for a while. If you lend it to a particular enterprise it will be spent in wages and they in turn will be spent in buying commodities, and the money will circulate. (*Professor Gregory*): That is equally true in both cases. (*Mr. McKenna*): In the first instance the impetus is more towards the velocity of circulation. (*Mr. Tulloch*): Do you not get the same result if you build a house; the money goes to the people who lay the bricks and so on?—I should call that industrial.

4761. *Mr. Tulloch*: Is not the velocity exactly the same? (*Professor Gregory*): Surely the difference is in the degree to which a particular bank's assets are saleable. I do not think it makes any difference whether you lend the money for the house or for the raw materials to build the house. (*Mr. McKenna*): No, I should call both of these trade loans. But if you lend money for the purpose of mere pleasure for people that money for the time being has no velocity of circulation in trade. Of course, it may subsequently be used in trade, but anyhow you have lost the impetus. (*Mr. Brand*): But there is a much bigger turnover, which I suppose comes to the same thing as velocity, in the case where the bank goes on lending £1,000 than in the case where the money is lent for three years? —I do not think there is a bigger turnover of money.

4762. *Mr. McKenna*: The turnover of money, as shown by the Clearing House returns, may have nothing to do with it, because a vast amount of that may have no relation to trade. (*Mr. Brand*): You are supposing you go on lending £1,000 for six years all in relation to trade. I should have thought the velocity was greater when you lend £1,000 once a year. (*Mr. Lubbock*): Are you assuming that the money is paid back to the bank, that there is no more money out? (*Mr. Brand*): Yes. (*Mr. Keynes*): I suggest that the amount that you can do in that way as distinct from the volume of credit is extremely limited?—It seems to me, from a study of the American figures, that they have done a good deal between 1922 and 1929; you got this very big rise in the time deposits in the American banks accompanied by a very considerable increase in the extent to which the American banks, directly or indirectly, were financing capital construction. I cannot help thinking that that was one of the things which enabled America for so many years to stave off this condition of gluttability.

4763. *Mr. Keynes*: That would not be the case if the volume of credit had been kept stationary during the time that the danger occurred?—Not to the same extent.

4764. Supposing the total volume of time deposits plus demand deposits had been kept stationary, the banks would have done no more good by being willing to invest them in long-dated investments, would they?—I am assuming throughout that the banks are finding some difficulty in placing their money in short investments of a kind which does influence the demand for goods and for labour.

4765. That would only arise if the volume of credit were being expanded?—No; it may arise, and I feel pretty certain it does in America, through the diminished dependence of industries on the banks for their working capital. I have no means of knowing whether there are any signs of that in England. I rather gather from Mr. McKenna's remarks that there are not, but other banks say there are. (*Mr. McKenna*): If you look at the banking figures you will find that formerly the ratio of advances, which includes trade advances, was not 50 per cent. to deposits; it is now 60, and it is only by great pressure that the banks are able to keep it at 60, and that it does not go higher; which would be an indication that there is a demand for temporary loans of this kind for business purposes.

4766. *Sir Thomas Allen*: Reverting for a moment to the point you made in relation to public savings and bank deposits, you would agree, of course, that public saving is essential, and ought to be encouraged?—Yes.

4767. I take it the nation is wealthy in proportion to the number of its well-to-do citizens. What is it in your view which induces the public to save, and when and at what point does that inducement operate?—I am speaking now of a particular kind of saving,—the leaving of money on deposit, and I think the growth of that may be due to lack of confidence and willingness to use the saving in any other way, and that is a situation which is not beneficial to a country, but in some respects harmful.

4768. Should not the public be induced to save in some way other than through the banks?—That depends upon whether the banks can encourage the spirit of enterprise in some way so that they do.

4769. *Mr. Brand*: What other way?—By reconstructing British industries.

4770. What other way apart from that?—I think we then come to the intervention of Governmental and semi-Governmental bodies.

4771. The ordinary man thinks he can save either by putting his money on deposit or by investment?—Yes.

4772. You would not regard that as saving?—Yes, I think that might be a good use of the saving, provided that the person he buys the investment from does not do the same thing and leave the money on deposit with the bank. Provided it takes the form of new issues.

4773. *Sir Thomas Allen*: Then there is no utility in saving unless it goes into industry?—I think that is what it comes to.

4774. *Professor Gregory*: Your point is not merely that the banks should take up long-period investment but that they should take up a new issue which at a particular time the public are not willing to take up?—That would be one way.

4775. Otherwise they would not be utilising the new deposits?—Yes.

4776. *Mr. Frater Taylor*: Am I right in understanding you to say, in effect, that if the production of pig iron reaches saturation point and there is a stoppage of production, if by capital investment pig iron can be produced cheaper, and employment can be stimulated, a bank or other financial institution might help in making that capital investment?—Yes.

4777. Is that really your theme?—Yes.

4778. *Chairman*: The old-fashioned financial idea was that you financed capital out of savings?—Yes.

4779. If the manufacturer had a surplus at the end of the year, he invested that in his own factory, put in new plant, and so on, and financed his capital expenditure in that way. Is it your view that capital expenditure in a situation such as the present can be met by the creation of credit, apart from savings?—I would not say it was apart from savings. I would say that the creation of credit by the banks for the purpose of the present situation would be simply a means for placing at the disposal of industry the saving which is being done by the bank depositors.

4780. You assume there is some ultimate aim. It is not to be a mere paper transaction?—I think it is making a paper transaction into a real one. If a person simply saves by leaving his deposits undrawn on at the bank his saving is paper saving; to convert it into real saving the bank must make a loan or investment in industry.

4781. The first condition is still the saving?—Yes, which I think is fulfilled; the evidence seems to be that there are these bank deposits piling up and not knowing what to do with themselves.

4782. *Mr. McKenna*: I am not aware of any deposits that the banks have the slightest difficulty in dealing with, when they can get them?—Have not the banks shown an increase of deposits in recent years compared with current account?

4783. There is an increase on deposit account against current account?—I take that as some evidence of an increased desire to save, by which I mean to use an account at the bank as investment, rather than as something to draw cheques upon.

4784. The accumulation on deposit account in relation to current account depends primarily upon the rate paid for deposits. When the bank are paying four or five per cent. for fixed-period deposits they can get deposits. Sometimes when the proportion on deposit account to current account rises very high some banks might pay 6, 6½, 6⅝, and they are quite able to obtain deposits at that rate.—Yes.

4785. *Sir Thomas Allen*: I suppose Mr. McKenna would agree that the propaganda of the banks in recent years with a view to inducing deposits to come into the banks has had the effect of checking their flow into industry. (*Mr. McKenna*): The propaganda to obtain deposits has been propaganda appealing to the public not to carry so much currency in their pockets, but to put it in the bank at interest. That is an entirely different appeal from the appeal to the owner of the money to place his money on deposit by giving him a high rate of interest. (*Sir Thomas Allen*): But these deposits or savings if they were diverted to other channels might flow into industry, whereas they are now checked, merely because they go into the banks. (*Mr. McKenna*): No; the deposits you are speaking of are not savings in the sense that Mr. Robertson is speaking of. They are only deposits of superfluous currency carried by the public in their pockets. (*Sir Thomas Allen*): You have a new class of client by reason of the propaganda for deposits in recent years. There is no relation whatever to a current banking account. (*Mr. McKenna*): Let me explain. All the banks now have propaganda inviting children and others to pay the money which they have in their money boxes into the bank. There is not an additional saving there in any sense of the word, because the currency of the children was already in their money boxes in their own home. We have a propaganda amongst them to take their money boxes to the bank and place the money on deposit, but it was currency which was already in circulation?—But would Mr. McKenna hold that there has been evidence in recent years of a certain unwillingness to use those deposits?

4786. By the banks?—No, by the depositors. Whether it takes the form of transferring from current account to deposit I do not know, but I think there has been that tendency in recent years.

4787. So long as people are able to get a high rate on deposit the deposits may for a period be very sluggish, but I think you will find that with the rate the banks are paying now those deposits will not be sluggish any longer?—What will happen?

4788. They will buy investments, and when they buy investments they go from the sellers of the investments to current account?—In so far as that happens then I think a low bank rate is going to help solve these problems. (*Mr. McKenna*): Certainly a low bank rate always tends to transfer money from deposit to current account; it does not alter the quantity of deposits.

4789. *Mr. Tulloch*: You mean solves the problem so far as concerns new enterprise?—Yes.

4790. The mere buying and investing with someone does not solve the problem?—No, not unless the person you buy it from ultimately buys a new issue.

4791. *Chairman*: As a layman I cannot discriminate between the two different transactions. If I place £1,000 on current account with my bank I am making available that amount to the bank for utilisation; but I can go to my banker without any money and say, "Will you open an account and give me an overdraft and enable me to draw upon that?" and he may say, "Yes, I have sufficient credit; I will do that." Are not the two conditions different? In one case I have furnished my banker with £1,000 credit; in the other case nothing happens except that he says, "I trust you to draw cheques on my fund to which you have contributed nothing"?—I think the two operations ought to be complementary; if you are doing the first I ought to be doing the second, otherwise there will be trouble.

4792. *Professor Gregory*: No; otherwise, according to you, there will be a boom. (*Chairman*): Are these both equal deposits?—May I press you a little as to what you do in the first instance?

4793. *Chairman*: Supposing I have an overdraft and I draw a £1,000 cheque on that, which is honoured; it at once becomes in its turn a deposit; then in the long run the whole of this money is labelled "deposit money," a great deal of which seems to me to have no relation to reality. (*Mr. Brand*): Must you not have got your first £1,000 from me, or somebody else?—I am assuming that the first £1,000 was not gold or notes.

4794. *Chairman*: I want to get that clear if I may. I am figuring out the banker's part in remedying the present unhappy state of affairs, and I have not got from you yet what he ought to do in the present conditions under which he operates. I want to ask you how can we assist him by any recommendation that we may make?—I should like you to encourage him not to be so afraid of losing deposits if he does put his money to a greater extent than at present in permanent investments.

4795. Let him be ready to make investments which are merely of a capital character?—And if he does not like to do that on his own, let him and his fellow bankers get together and start a consortium for doing it in common.

4796. Are we not to assume from that that there are unsatisfied wants, that there are people who desire these facilities?—Or who could be made to desire them if there were a reasonable chance of getting them.

4797. Does not that assume that there are manufacturers who see that there are opportunities for practical use of that money?—Yes.

4798. And is not the real trouble, when you get down to the root source, that as there is not a demand at the moment, there is not an opportunity? What is the use of extending your factory and putting in more plant unless somebody is going to use the product of your plant? The banker cannot help that, can he?—No, in the last resort he cannot, but if there are signs of a demand then he can encourage it, I think. I think the metaphor which I venture to use makes it plain, that the offer by the banks of advances for financing current production is like offering boots to people who have no legs; the banks say they may have any amount of loans for working capital, but they are not helping them sufficiently to put their fixed capital into a state in which they will be justified in asking for loans for working capital.

4799. *Mr. Brand*: Is it not a fact that there is nobody to blame for that, or hardly anybody? I understand your theory is that if the banker did that everything would get going and prices would rise?—I am pessimistic to the extent that I admit the banks by themselves cannot do everything.

4800. It depends not only on the banks here but on the banks in foreign countries?—To some extent, although I put the emphasis less on the international difficulties than some people do.

4801. Are you speaking in relation to prices now? Do you think that the Big Five, for instance, could bring about a change in the price level here?—I think they could help.

4802. *Mr. Brand*: Within the gold standard. (*Chairman*): You prefer, I think, to proceed first of all from the point of view of our being a self-contained country, and then investigate how far we are affected by international difficulties?—I think it is evident that we are so affected, but I lay more emphasis than many people on the difficulties which may arise even in a self-contained country.

4803. *Mr. Keynes*: Would Mr. Robertson agree that, whatever might be the effect of what he proposed, you would get the same result much more securely or on a much larger scale by an increase in the volume of credit?—No, not altogether, because a mere increase in the volume of credit without organising the uses to which it is put may simply lead to the result of the money lying idle on deposit, and then it is no good.

4804. That is very unlikely, is it not? People do not borrow money to let it lie idle. (*Mr. McKenna*): If it lay idle on deposit the banks would not pay for it, and if the banks would not pay for it the depositors would not put it on deposit, but would use it?—Are the bankers confident that they could create large quantities of additional credit which would be used actively for the creation of goods and employment of labour?

4805. *Mr. McKenna*: If there is a larger ratio the banks will create credit?—Yes, but credit of what kind?

4806. They will lend in the money market and buy bills, and that will make money become cheap, and money becoming cheap the banks will pay less on deposit and the depositors who get the money paid them, the sellers of the bills and others, will be less willing to leave their money on deposit at a lower rate, and that process will go on until depositors are entirely unwilling to leave their money on deposit. (*Chairman*): I cannot see myself how an increase in the volume of credit necessarily assists unless there are persons who wish to use that volume of credit and they are persons who can see opportunities of trading or manufacture where they can use the credit to a profit. It always strikes me that the whole banking system, immensely valuable as it is, is after all not the real thing; the real thing is labour and commodities, and banking is only one of our methods of assisting it, or, if you please, providing financial organisation for it. (*Mr. McKenna*): The real thing *should* be labour and commodities. May I ask whether there is any known condition in which there was not a demand for money?—Yes, I should have thought all through the nineties and at the present moment.

4807. *Mr. McKenna*: There is plenty of demand at the moment. The nineties was entirely different. That was due to something entirely different, but there is plenty of demand for money to-day. (*Mr. Brand*): Have there not been periods when you have not been anything like 50 per cent. lent? I thought you said that the banks would always lend up to the ratio. (*Mr. McKenna*): When one says "always" one means always in relation to the present. I would not say it would apply to the sixteenth or seventeenth century necessarily; I mean, under conditions which we have known in this century there has never been any lack of demand for money? —Is there not some danger of that happening which I think happened in America in 1927? The Federal Reserve system tried to expand credit in order to check the sag of commodity prices and what happened was that the credit created was used in speculation on the Stock Exchange, it was used by A to buy shares from B and B left the money on deposit with the bank, so that in spite of a considerable expansion in the volume of credit the level of commodity prices was barely affected. That is the sort of situation which is possible.

4808. *Chairman*: The credit was not used?—Yes, or not used in a way which would ease the price situation and the employment situation.

4809. *Mr. McKenna*: I agree that in that case credit was excessively created in the United States. Over a short period the deposits in the United States rose by 40 per cent., an incredible increase; that was a greater increase than was justified by any expansion of trade in the United States. The expansion of credit can be just as easily abused as the contraction of credit?—I give that as an illustration that while the banks may affect the volume of credit they cannot be certain that the credit will be used in such a way as to affect the price situation.

4810. Even if you have a condition of falling prices and unemployed labour which could be employed at a profit?—I should *like* to be certain; but I do not feel certain that by merely lowering the Bank Rate or expanding the volume of credit you can cure the condition.

4811. When you have a fall in prices and unemployed persons who could be employed at a profit at the current rate of wages, have you not then got conditions in which it is perfectly safe to expand credit?—I think it is perfectly safe to expand credit, and I do not want to be understood that I am not in favour of expanding credit; I am only a little sceptical whether by expansion of the volume of credit alone you can do the trick.

4812. *Mr. Keynes*: Having granted that, the question that started the argument was the possibility of increasing trade by the method not of expanding credit but of the banks being more willing to have loans that would tie them up. If there is a tendency on the part of the public to fail to use loans, why would that be more likely to happen if you are increasing credit than if you are more willing to be tied up with loans?—In order to get the credit out you have to lend the additional credit to somebody, and you tend to lend it on the Stock Exchange.

4813. In the first case, where you are willing to get tied up, there is more likelihood that you are causing somebody to go without than if you are expanding credit? If in one case a man wants to borrow £1,000 for capital works somebody else may have to do without, but if you increase the volume of credit there would be an addition?—Yes. I do not see why the two should be considered alternative. I should like to use both of them.

4814. Is not the expansion of credit far more likely, other things being equal, to secure your result?—No, I do not feel sure that it is, because from the present point of view the important thing is the demand for commodities, and the demand for labour, and it seems to me that we have reached a situation where that requires organising in some way; so that the character of a bank's loans has become almost more important than their amount.

4815. *Mr. Bevin*: You want a conscious direction of capital investment?—Yes.

4816. *Chairman*: The banker cannot control that himself; he can only create the additional credit and let it loose, so to speak?—Can he not do something to organise the use; that is to say, in the same kind of way that the German bankers do?

4817. That would mean a complete change of policy, but within the present framework of British banking it would not be possible, would it; it would be a complete departure from the canons of British banking?—I do not feel certain that we could not make a change in that direction, and I take the new Company to be an indication that we are prepared to do so.

4818. *Professor Gregory*: What test do you think the bank ought to apply? These considerations have arisen with regard to your theory of the gluttability of wants. What you are suggesting is that the bankers ought not to rely on loans which might spill back into the bank, but that they should take the initiative in stimulating the demand for wants, for capital and labour. How do you suggest that they should start on this enterprise; what tests are they to apply as to the direction of new lending or new investment on their part?—I think they have got to be prepared to make some fairly direct judgment as to whether the thing in question is the sort of thing that the country will really want.

4819. *Mr. Brand*: As I see it, in the business world you have tens of thousands of people all looking for profit; if they see a profit, and if they can borrow money they will borrow money. The reason they are not doing it now is that they do not see any way to make a profit. With falling prices they have had loss and no profit. Your proposition, as I understand it, is that the bankers should decide, where the business man cannot see a profit, whether, in their opinion, there is a profit likely, and should get some business men together to start an undertaking, to which they will lend money?—I think it does amount to demanding of the banking system a rather different standard from that of the ordinary profit-maker. I do not think one can get out of that.

4820. Then I think you get into a region where private enterprise does not work at all, and where you are driven back on Government enterprise. I think the banks can only lend money to industry generally on the initiative of the industry, and the initiative of private enterprise must be governed by profit-making?—Short of that, can we not expect the banking system to take a rather longer view than the purely private person?

4821. It is prepared to take a longer view. But under present circumstances the industrialist does not see the opportunity to make a profit. I rather differ from Mr. McKenna; I quite agree with him that if labour and capital and material can be employed at this moment to make a profit, then people will come to the Midland Bank and other banks to borrow money. The difficulty that industrialists have at the moment is that they do not see how to make a profit. (*Chairman*): They are on the look-out for it wherever they can get it. (*Mr. Tulloch*): Are you not suggesting that the banks should take the part of adventurers with borrowed money? I am putting it rather crudely, perhaps, but it does come to that, does it not?—They should take the part of intermediaries, making investment on the part of the public.

4822. So far as concerns the German banks you were referring to, were they not before the War working on very much larger capital than the

English banks?—(*Witness*): Yes, that was so. (*Mr. Tulloch*): They were acting not only as bankers but as principals. (*Professor Gregory*): In fact the German banks are not doing to-day what Mr. Robertson thinks the English banks should do. (*Mr. Brand*): I think they were partners with the industrialists when the industrialists had a chance to make a profit, and when the banks shared that view.

4823. *Sir Thomas Allen*: How far do you think the present move on the part of the Bank of England will attain the desired goal, or what would you suggest supplementary to that?—I have no means of knowing the facts; I am waiting to read the Report of this Committee in order to learn.

4824. *Chairman*: Must not the initiative in the ordinary case come from the business itself; the business will apply to the bank if it wants the facility?—Yes, but is not the question, how far the business will come to the bank, partly dependent on the experience of what the bank will do for it? If the business knows that the bank will turn down an application for fixed capital then it will not come to it, because it will know from force of habit it is no good.

4825. Then is your suggestion that according to the policy of our banks at the moment they are not disposed to make long-term advances?—Yes.

4826. Is there any other sin of omission of which they are guilty at the moment?—I should say that there has been some evidence on the part of some of the banks of being too ready to lend for purposes which are merely financial in the sense that the money is used simply for performing paper reconstruction.

4827. You mean they have not been sufficiently critical in their efforts?—Critical from that particular aspect, as to whether the money will be used in a way which helps to relieve the price and unemployment situation. It seems to me there are some loans which from the point of view of security and so on may be admirable, but which are, nevertheless, from the public point of view not useful.

4828. *Chairman*: These people have come to the bank and asked for money and we have been assured that the banks were ready and willing and able to lend to all their customers who come to them for money, whether they are stockbrokers or industrialists. (*Mr. McKenna*): I assure you that we have a great many applications—we receive them constantly, and have been receiving them for months and years—which we have been obliged to refuse because we have not had the money. (*Chairman*): And which you would have been happy to accommodate? (*Mr. McKenna*): We should have been glad to accommodate them if we had had the money. My experience of that is obviously quite different from that of all my colleagues in the banking world. (*Chairman*): But what are we to say to the evidence which we have received? We have got to consider the evidence. (*Mr. McKenna*): We have had evidence from customers to the contrary. (*Mr. Keynes*): Assuming for the moment that Mr. McKenna is right, would you then say that one could do more good, or could do it with more certainty, if the Midland Bank were to change its criterion in granting loans, than if the Bank of England were to act in such a way that the Midland Bank could lend a larger total value?—I should like to see an expansion of the volume of credit so far as is possible within the frame of the gold standard, and also a greater willingness to reconsider the nature of the assets. I do not think they are in the least incompatible; I should hope for something from both of them.

4829. *Sir Thomas Allen*: Would you regard it as possible within the frame to the gold standard to extend credit?—I come to that point in the third part of this memorandum. I think there are certain devices which might be worth trying.

4830. *Mr. Brand*: You would be satisfied if the alternative course were taken, and industrialists who saw their way to make a profit got their money from the public instead of the bank?—Yes, because that would mean that the bank deposits which are at present idle would be used. (*Mr. Brand*): The difficulty with British industry at the moment is that it cannot put forward any proposition to the public which shows safety and profit.

4831. *Mr. Keynes*: May I ask a rather important question on paragraph **10**? In connection with gluttability of wants, take the case of consumption goods where gluttability can occur and then proceed to the case of investment goods dealt with in paragraph **13**. Suppose that the public do not want to increase their consumption, or want to decrease their consumption, that means that their savings will increase. The suggestion here is that, just as the desire to consume can reach its limit, so the desire to invest can reach its limit, but there is no mention in that connection of the rate of interest. Does this mean that the desire to invest at 5 per cent. can be satiated, or that the desire to invest at a rate of interest, however low, can be satiated?—I feel very doubtful about it, but it does seem to me, even when the market rate of interest is very low, when it is in the region of 4 or 5 per cent., people may be very unwilling to invest.*

4832. I am not now talking of Bank Rate. If you succeeded in bringing down the effective bond rate to a half per cent. below the rate previously ruling—let us suppose it falls from 5 to 4½ per cent.—would not that bring in much further investment, and each half per cent. fall would bring in still more?—One hopes it would, but again I feel the situation may arise where people have so little confidence in anything that the bond rate is not effective.

4833. You mean, if people could borrow for long periods at 3 per cent. there would still be no borrowers forthcoming?—There would not be the money; there would not be sufficient.

4834. Here are excessive savings. I quite agree it may be that the public cannot be induced to spend any part of them; it may not be possible at 5 per cent. to find enough borrowers; but if you could then proceed to lower the rate of interest—not merely the short, but the long-term rate—is it at all probable in present circumstances that you would not find adequate borrowers coming forward at a reasonable level?—No, I think it is not. But I still think there is a difficulty of the lenders coming forward; you may get such a lack of confidence that people may prefer to go on getting 1 per cent. on their deposits with the bank rather than invest in bonds which are yielding 3 or 4 or even 5 per cent. I do not know whether I am right.

4835. You also assume that provided the volume of credit is expanded *pari passu* with the fixed deposits the banks are unwilling to buy Consols. I see the possibility; I think something of the same sort happened in the nineties. Is it a real possibility in anything like the present circumstances? If people could borrow on long term at 2½ per cent. for building, agricultural purposes, or any other thing, is it at all probable that there would be an insufficiency of borrowers?—I feel very uncertain. One would have thought not.

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* This and the following answers are very muddleheaded, because I was trying to think simultaneously of the reactions on borrowers and lenders, and confusing the two. The idea at the back of my mind, about which I have since become clearer as a result of conversation with Professor Gregory, was that under conditions of lack of confidence and saturation of demand, it may require an extremely *low* rate of interest on long period investments to attract industrial borrowers, while it requires a relatively *high* one to induce the holders of balances to part with them for long period investments; hence equilibrium may not be reached.
D.H.R.

4836. The long rate of interest has been continuously very high, judged by nineteenth century standards?—Yes.

4837. The rate of interest in recent years has been higher than was known prior to the War for perhaps two generations. What is the reason? I should have thought it was more plausible to suppose that that high rate of interest was much more responsible for the lack of investment than anything else?—I feel that you may want a frightfully low rate of interest, even a negative one, in certain circumstances, to overcome the lack of confidence.

4838. It is rather premature to suggest that, when we have not even tried having a rate of interest approaching the pre-War rate?—We are beginning to try.

4839. But not for long-dated borrowings?—How could we get the long-dated down?

4840. That is a further question that may present great difficulties. What I am suggesting to you is, that the trouble may be that the long-dated rate of interest is for various reasons at a level very high in relation to what for many decades has been the rate at which people were willing to borrow freely?—Yes.

4841. *Mr. Keynes*: At any date in the 30 years preceding the War the present rate of interest would have stopped investment dead, would it not? (*Professor Gregory*): Let me put this to you. Is not this the difference between the pre-War position and the post-War position—that if for any reason before the War the bond rate rose suddenly to 6 per cent., that attracted a great deal more savings and urged people to invest in long-term bonds to a larger extent, whereas, in the post-War period, is not one of the paradoxes of the situation that the higher the rate of interest goes the more it frightens people; consequently, if you have a lower rate of interest you might increase the total volume of investments?—(*Witness*): What it comes to is this, that a large part of what appears to be the rate of interest on long-dated securities is now really a premium for risk, or for believed risk, and the long rate of interest remains high compared with Bank Rate because it contains a large element of what are really profits, the reward for real or imaginary risks. (*Mr. Keynes*): I should have thought the reason why the bond rate was high in London was that there were rows and rows of foreigners who were very willing to pay extremely high rates for the money. We cannot accommodate them owing to the deficiency in our balance of trade. If we were to let the rate down we should lose gold, because the foreign borrowers would be so eager; on the other hand, the effect of keeping it up to these levels, which in pre-War days were unprecedented, chokes off home borrowers. (*Mr. Brand*): I personally do not agree with Professor Gregory except in the case of certain foreign governments; a high rate of interest paid by an English borrower does not frighten off anybody. The rate of interest is very high compared with before the War, but the fact that the British Government pays 5 per cent. instead of 3 per cent. does not frighten off any investor.

4842. *Mr. Bevin*: May I be allowed to ask one or two questions on another phase? In paragraph 11 you question rather seriously the wisdom of those who advocated the use of the Trade Facilities Acts for the building of ships?—Yes, I gave that as an instance of the fact that an attempt to encourage capital construction, which I advocate, must be used with discretion.

4843. And you rather take the view that it was indiscreet at that period to use such a system as the Trade Facilities Acts in view of what you regard as a glut of ships?—Yes.

4844. Did you have regard to the fact that practically the whole of the port facilities all over the world have been changed as a result of the War?—I am afraid that was not in my mind, but I do not know whether it affects the point.

4845. Let us assume, for instance, that it is a fact that the port facilities, the introduction of grabs, elevators, and other methods of handling, have been stimulated as a result of the War, and you had a glut of ships of pre-War type, and you did not stimulate the building of new ships of the modern type because you had those old ships, would you not fall behind in your mercantile power, and in your rates of freight and conditions of carriage?—Some of the new ships surely are those which were built in 1919 and 1920.

4846. The ships which have been built since 1919 and 1920 represent a saving in the handling of commodities of about 30 per cent. Surely that is necessary. If you had relied purely on the ships that were built pre-War, with small hatches and deep holds, and stanchions, and everything that was in the way of free handling by modern machinery, would you not have fallen behind?—I think it would follow that if you are going to modernise your plant you have to have a vigorous policy of scrapping the old plant at the same time.

4847. Have you seen the returns of the ships now in the British mercantile marine over 20 years old?—You mean that have been scrapped?

4848. Scrapped or sold?—Yes, and very often sold to foreigners, which increases the glut of the market. I merely use this in illustration of the point that if you are trying to stimulate a desire for new constructional implements you would not choose this trade, in which there has been such an over-supply as to lead to a very big slump in freights over a very long period and very low profits in the industry.

4849. If you question the wisdom of glutting the British mercantile marine by taking over old German tonnage for reparations, I agree with you?—That aggravated the problem.

4850. That left us in this country with a good deal of old tonnage while Germany built new tonnage, the freights for which were 30 to 40 per cent. below those of the old tonnage. I should have thought that the stimulation that was given to the shipbuilding industry post-War by the Trade Facilities Acts was one of the wisest things we did. It helped the steel trade. (*Chairman*): Did we not use Trade Facilities for the construction of foreign tonnage? (*Mr. Bevin*): Not to a great extent, I think?—My recollection was that the Trade Facilities Committee was rather stern in turning down those applications for assistance in building ships.

4851. *Mr. Bevin*: I know the shipowners objected to building ships, but that was rather due, was it not, to the fact that they had been selling and buying in the boom, and did not want us to write down the old tonnage? People sold out their ships in 1918, 1919 and 1920, for fabulous sums, and then bought them back again, but they were old ships; they were not up-to-date. I thought the use of the Trade Facilities Acts stimulated new shipbuilding to meet new requirements, and that cheaper carriage was one of the things which compelled the shipowners who had been holding on to these big book values, which were really paper values, to write down or scrap or sell their ships. I admit there must be a limit. Might not a banker find himself in this position with an industry, where he says "I cannot get the wheels to turn unless I stimulate it," an industry where there may appear to be a glut, but it is a glut of an obsolete kind of goods?—I think that is certainly one of the ways in which America has staved off depression so long, being ready to scrap plant.

4852. *Chairman*: They have been much more ruthless?—Yes, and that is, as far as it goes, a cure for industrial depression.

4853. *Mr. Bevin*: Suppose you have a glut of obsolete plant, and no one will move, how can you stimulate demand unless you have measures such as Trade Facilities? (*Chairman*): Mr. Robertson does contemplate that in the present emergency it may be necessary to resort to exceptional measures for facilitating credit?—I certainly agree in principle. I may be in error as far as this particular instance is concerned.

4854. *Chairman*: In your diagnosis of the present position, how far do you attribute the present depression to defects in the financial system? Have you been able to detect in the present financial system of this country the cause, or a contributory cause, of the present depression and, if so, what are the symptoms that lead you to that opinion?—That is, the financial system as a whole, and not merely the practice of the joint stock banks?

4855. We are here in search of the causes. It is suggested in some quarters that one of the causes, if not *the* cause, of the present difficulties is to be found in the monetary system of this country—the financial system generally—do you think that is so?—I think there are certain features of it which make recovery difficult.

4856. It may well be that there are defects in our financial system as there are in our monetary system, and that those may be contributory to the present conditions. What I am very anxious to investigate is how far our distress is due to defects in the financial system and how far can you bring home the cause to that quarter? In your analysis of the position, is it your view that the present depression is due to financial deficiencies?—No, not primarily due, but it would be easier to cure it if there were certain changes made in the financial system.

4857. I want to put a very broad question to you. In your view the present difficulties are not due to defects in our financial system, but, encountering such a state of matters as we are now confronting, you think that by the use of certain financial expedients we might be able to alleviate the situation and assist recovery?—I think that would be putting the emphasis in the right place.

4858. What are those deficiencies at the present time which, in your view, have been contributory to the present distress, and, secondly, what in your view would be the right thing to recommend for that process of alleviation and assistance which the monetary system could afford? I want to get a conspectus from you.—The first is this gap in our financial system for financing long-term enterprise, which needs closing somehow or other by the banks or by some other agency.

4859. Is that the only thing wrong with the financial regime?—Not the only thing.

4860. What is the other?—I deal with those in the third portion of my Memorandum. I assume we have to take the gold standard for granted. Taking it for granted, I think there are certain changes which might be made which would enable us to do away with some of the disabilities which the gold standard imposes upon us.

4861. The gold standard has advantages and disadvantages from your point of view, has it not?—Yes.

4862. And the disadvantages might be mitigated by certain changes?—Yes.

4863. Supposing the gap were closed by the banks adopting some new policy, or other expedients for relief under the gold standard were adopted, do you think both those things would assist the country's recovery?—I should hope so.

4864. Do you think the country's recovery is being retarded at the moment through want of financial vision in these matters?—To that extent.

4865. We have been discussing hitherto the policy of the banks as they stand at the moment with their existing resources and difficulties. I take it your only criticism of the banks is that they are too rigid in the provision of their loans, they are too much concerned with the liquidity of their assets?—That is so.

4866. That it is an obsolete fetish—that is perhaps putting it rather strong, but you like strong language, I notice—at any rate it is out of date?—To a large extent, yes.

4867. And that in turn is due to the inheritance from an earlier period of banking when there was the risk of a run on the smaller banks?—Yes.

4868. Now that the banks are organised as large units that risk does not require to be insured against to the same extent?—Yes.

4869. Then if everything else was done, and these expedients were adopted, in your view the banks, if they were more discriminating in their loans and were also prepared to lend long—assuming there were applicants for those long loans—could assist?—Could assist.

4870. Is that the only way in which you think they could assist under the present regime?—I think so, of themselves. I think they could help to assist, as I suggest in this first part, Governmental and semi-Governmental agencies; that depends on the co-operation of the banks.

4871. That is really machinery *ad hoc*?—Yes.

4872. Specialised machinery. Is it desirable in your view that there should be new agencies? The Trade Facilities scheme is one form of assisting credits and invoking the aid of the Government; are you in favour of other agencies of that kind being created of a Governmental type?—Yes.

4873. *Sir Thomas Allen*: Do you suggest an extension of overseas credit? (*Chairman*): What have you in mind, following Sir Thomas' question; what sort of things could be done?—Well, I have in mind schemes of public works, as they are usually called, of development of the capital resources of the country by the Government.

4874. More roads, more bridges, things of that sort?—And I should say particularly demolition and rebuilding of houses.

4875. *Mr. Keynes*: This is what you are advocating in paragraph **13**?—Yes.

4876. Coming back to our previous discussion: we were disagreeing, perhaps, to some extent, as to the reason why investment was deficient, but the conclusion of all this is, whether for my reasons or your reasons, the trouble is that investment is deficient?—Yes.

4877. And you would be more pessimistic than I should be as to whether you could stimulate investment by lowering the rate of interest. Therefore your main hope of stimulating investment would depend on services of the type that you enumerate in paragraph **13**?—I think so.

4878. *Professor Gregory*: How far are you prepared to go in the direction indicated in paragraph **13**?—Do you mean in terms of money; pounds worth of investment?

4879. In terms of quantity and time?—I should like to go a very considerable way. I do not know how one can put it in measurable terms.

4880. *Mr. Keynes*: Have you considered how much additional investment per annum would be needed to put things straight?—No, I am afraid I should be very reluctant to give a figure.

4881. *Mr. Brand*: Does Mr. Keynes mean by "put things straight" the disappearance of all the slums?—(*Witness*): The disappearance of abnormal unemployment? (*Mr. Keynes*): Yes.

4882. *Mr. Brand*: You would regard this as a temporary expedient, would you; that at some moment when you arrived at some sort of equilibrium this Government enterprise should diminish?—Yes, I would, but I think "temporary" may mean fairly long, for the reason which I give later, that if you are at the same time rationalising private industry I do not see how that is to result in anything but a temporary decline in employment, and therefore the need for supplementing private demand by public demand may continue for a very long time.

4883. Would you insist that the capital expansion should all be remunerative, and that its return should be as great as the normal return to private ventures?—No, I do not think one can insist upon that.

4884. Then it would mean an increase in the rates and taxes?—It would involve a certain amount of subsidisation.

4885. Which is paid for either out of the rates or taxes?—Yes.

4886. *Mr. Bevin*: On what grounds do you come to the conclusion in paragraph **14** that employment will only be temporarily diminished by rationalisation; you do not think it will be permanently reduced?—I hope not, but I do not feel as confident on that point, if by "employment" one means industrial employment, as some people seem to be. I am impressed by the figures published from time to time in the United States showing the decline in the factory population between succeeding Censuses of Manufacture. I think one has to realise that there is all the time a growing demand for labour engaged in distributing the rationalised product.

4887. Even assuming it were only temporary, have you made any estimate of the time lag?—No, I do not feel competent to do that.

4888. *Chairman*: It is difficult to get the layman to appreciate that. Our attitude is, we are all desperately hard up; let us spend more money?—We are not desperately hard up, but we are wasting a great deal of our resources, both of labour and fixed capital, through under-use, and that makes certain people among us very hard up.

4889. *Mr. McKenna*: I gather from a reply that you gave to the Chairman that you are not of the opinion that financial causes are at the root of the unemployment and depression which has now existed in this country for a considerable time?—I think that it always happens that there are many causes at work producing a given situation, and I think I should lay more emphasis than many people on the purely industrial one as complicated by the War.

4890. If you take the opposite case, the case of this country after the War, in 1919 and 1920, I think you will recall that there was then great trade activity, a very high level of profit, and unemployment went down to below one per cent. You recall that?—Yes.

4891. Would you have ascribed that condition to inflation, to a monetary cause?—Partly.

4892. Only partly?—Only partly. There was the industrial cause behind it of a great shortage of products due to the cessation of production of particular things during the War. There was this tremendous activity in shipbuilding, which was typical of a general movement for restocking and replacing goods.

4893. You would not attribute the primary cause of what followed to inflation?—I should have thought not primarily. It was an extremely aggravating cause.

4894. Would you attribute as an equally aggravating cause the subsequent deflation?—A contributory cause, certainly.

4895. The decline in trade. Would you put the two in the same scale?—I think so.

4896. The cause of the prosperous trade or depressed trade; you would put the two on the same scale, the inflation as causing temporary prosperity and deflation as causing depression?—Yes; monetary factors working on an underlying industrial situation which was favourable to them.

4897. *Mr. Lubbock*: Which came first after the boom, the deflation or the overstocking?—Which put an end to the boom of 1920, do you mean?

4898. Yes.—I think that no purely monetary policy could have kept industrial activity at the level of 1920, and to that extent the overstocking rather than the monetary policy was the cause of what happened.

4899. Then when prices began to fall it was not due to any definite monetary action, was it, but that the buyers had got enough, and refused to pay the prices?—I think that the reason why the buyers had got enough was partly due to the fact that the Treasury had given notice that the policy of inflation was to be reversed, by the famous Treasury Minute of 1919.

4900. *Mr. Bevin*: Do you think we might have avoided a good deal of this depression if we had steadied down the deflation?—Yes, I think we might.

4901. You mean, if we had actually stopped the deflation at a higher point?—I think we might.

4902. *Mr. Lubbock*: Did not the fall of prices begin outside this country?—It began, I think, in Japan and America.

4903. The Treasury Minute did not affect them?—No, but similar things were happening there. The Government and the banking system were putting a stop to the inflationary process.

4904. *Professor Gregory*: May we go back to the suggestion in paragraph **13**? I do not want to raise the theoretical issues involved, but I want to get from you how far you think this policy of public loans ought to be carried. Supposing its effect was to increase confidence and stimulate the demand for capital goods, obviously the thing has to taper off, otherwise you get inflation straight away?—Yes.

4905. Have you formed any idea how far one could control a policy of this sort; by what sort of indications one would have to be guided?—One would have to watch carefully the prices of constructional materials, and so on, and by looking out for any inflation or rise in the price of constructional materials be ready to damp down the policy somewhat.

4906. That might involve renewed instability in construction?—Unless you could use it as a balancing factor to remove instability arising from other causes. That is the purpose of it.

4907. My own difficulty in accepting this view is the practical one that I do not quite see how you can implement it without adding to the degree of dislocation when you stop. (*Mr. Keynes*): The hope would be, would it not, that this satiation of demand was not a permanent factor?—Yes.

4908. *Mr. Keynes*: That in the ordinary course private enterprise would some day revive. What you have to do is to make up the deficiency in the interval?—Yes. But I think one has to face the fact that the interval is longer in the present position than it was in the pre-War period, because of the slower growth of population.

4909. *Chairman*: Is it a matter of anticipating wants and concentrating in a short period work which in the ordinary course would take a longer period?—I do not think it is a question of anticipating; it is a question of interpreting new wants.

The public does want certain things but it can only get those things through collective action. Some things we want we can buy for ourselves. These things we cannot get unless our representatives interpret our wants.

4910. *Mr. Brand*: It almost looks as if we wanted a devastated area?—Yes, and to fill it up again. That would be a *pis aller* if we could not think of anything else, but I think we ought to be ingenious enough to think of other things.

4911. *Mr. Frater Taylor*: Have we not a type of machinery in the shape of Trade Facilities; does not that meet a public want?—I think that helps us. Trade Facilities is one way of doing it.

4912. *Mr. Lubbock*: Is not that the policy of jumps that you refer to?—It is putting in a jump where nature has left one out.

4913. And at the end of the time are we any better off; when the man has landed after his jump what does he do then?—One hopes that then private industry will be ready for a new jump. These ships must wear out some time.

4914. *Sir Thomas Allen*: While you are restoring your devastated areas you must be creating new industries, otherwise you will come back to the form in which you began?—Creating new ones or reconditioning old ones, yes.

4915. *Mr. Tulloch*: This is only a tiding over process, is it?—Yes, but I do lay stress on the fact that the tiding over process may have to be rather a long one.

4916. I agree. This is the basis of it?—This is the basis, but it is a little more than that, for the reason which I have given in the middle of paragraph 14, that some of the things which want doing are things which it is natural for governments to do in any case. I do not accept the view that these public works are merely emergency things; some of them are activities which under modern conditions will fall to governments to do anyhow. I think my view in that respect is more socialistic than some people's. I do not visualise an end in the immediate future to a Government policy of house-building, for instance.

4917. *Mr. Frater Taylor*: The building of the Welland Canal, in Canada, would be a natural Government trust?—Yes.

4918. *Chairman*: You say it would be for the purpose of tiding over a difficulty, in the hope of a revival of private enterprise later on?—Partly.

4919. It is obvious that in a community such as that in which we live nowadays certain things cannot be done by private enterprise, and ought not to be done?—Yes.

4920. But in your view there is a large field in which private enterprise can operate and ought to operate, and in which at the present time it is stagnant. But is there not the possibility that by the expansion of State enterprise you will still further abridge private enterprise, and that you will not get back to the sphere of private enterprise?—I should not think so, if the spheres for public enterprise are so selected as to be of a kind that will never again appeal to private enterprise. I do not visualise that the government would provide itself with all the constructional materials. It would come to private enterprise with a demand for constructional materials of all kinds, which would stimulate and not discourage existing private business.

4921. The difficulty is this, that once you take a particular operation out of private enterprise and put it into State enterprise it is difficult for private enterprise to revive. In pre-War days housing needs were met by private enterprise, and adequately met by private enterprise. Then the country's feeling seemed to be that private enterprise had failed to meet those requirements and that State enterprise should be called upon?—I believe as regards housing there is no way out of it. I do not think that private enterprise has been adequate, or ever will be adequate to solve the problem.

4922. *Mr. Keynes*: Might I call attention to a very striking phrase used by Mr. Robertson—that saving is the one thing that cannot be saved; that is to say, that if you miss the chance of doing something with this year's savings you never get it again. (*Chairman.*) What do you mean, Mr. Robertson, when you say that savings cannot be saved?—I mean if we lose the opportunity and we do not embody the savings in actual industrial capital, we shall not have the opportunity of doing it next year. We cannot put savings in cold storage, because they all get sucked away in falling prices and extravagance on the part of the consumer.

4923. They ought to be applied at once?—They ought to be applied at once in plant, and if they are not applied at once they do not exist.

4924. And why are they not applied to new plant? Because there is a lack of enterprise.

4925. And why is there a lack of enterprise?—Because of the gluttability of wants.

4926. That again, to go to the elements of political economy, is because there is not a demand?—Yes.

4927. If there is not a demand, do you think it is desirable to stimulate a demand?—To try to organise a demand.

4928. *Mr. Keynes*: You do not lay any particular stress upon the rate of interest as being a deterrent to demand?—It is all a question of emphasis. Of course, I do lay stress upon it, but I do not feel convinced that even at low rates of interest there will be sufficient confidence to employ vast amounts of capital in creating industrial instruments and structures at the present moment.

4929. If the business world thinks that there are hardly any propositions worth while at 2½ per cent., or not enough propositions, even if that were true—which I would not agree—would not the conclusion be that we should cease to save the present amount?—As a last resort, but there are obviously so many things that, from the community's point of view, are well worth while doing that I should take to that as a last resort.

4930. *Mr. Brand*: If they are worth doing, would not the community pay for them and will not Mr. Keynes be right that the business man will invest at 3 per cent.?—The community will not be able to pay for them except through the machinery of taxation.

4931. *Lord Bradbury*: The more the community does afford through the machinery of taxation, surely the less it will be able to afford through other means. (*Mr. Bevin*): That would not be true, would it, if the amount saved through taxation was put into real development; it would mean that the community would have to spend on other things if the State spent its money on development, even if it were taken by taxation?—If the initial trouble is that people will not spend money on anything but will keep it hanging about in bank deposits, then anything that makes them spend money on anything is all to the good, but it is better that they should spend it on things which it is desirable for them to have, such as houses.

4932. *Chairman*: The State can spend money better than we can ourselves?—Up to a point.

4933. *Mr. Keynes*: It seems to me that if people have to pay 6 per cent, for a long period loan and they had the opportunity of borrowing at 3 per cent. that would reduce by half the effective cost of factories, houses and machines. You say that even if the rate of interest were reduced by half people would not invest?—I think you are right that the fall in bank rate would help.

4934. That leads one to ask why the rate of interest is high, and that in turn leads one to the international position?—Yes.

Chairman: We might postpone that till to-morrow.

(*The Witness withdrew*).

(*Adjourned till to-morrow, Friday, 9th May*, 1930, *at* 4.30 *p.m.*).

TWENTY-SEVENTH DAY.

Friday, 9th May, 1930.

PRESENT:

The Rt. Hon. LORD MACMILLAN, *Chairman.*

Sir THOMAS ALLEN.
The Rt. Hon. LORD BRADBURY, G.C.B.
The Hon. R. H. BRAND, C.M.G.
Professor T. E. GREGORY, D.Sc.
Mr. J. M. KEYNES, C.B.
Mr. LENNOX B. LEE.
Mr. CECIL LUBBOCK.
The Rt. Hon. REGINALD McKENNA.
Mr. J. FRATER TAYLOR.
Mr. A. A. G. TULLOCH.

Sir FREDERICK LEITH-ROSS, K.C.M.G., C.B.
Mr. G. ISMAY, *Secretary.*

Mr. D. H. ROBERTSON, Girdlers' Lecturer in Economics in the University of Cambridge, recalled and further examined.

4935. *Chairman*: Perhaps I owe you an apology, Mr. Robertson, because yesterday afternoon the logical sequence of your argument was a little interrupted. I myself and some of my colleagues were so interested in what you were telling us that we sometimes diverted you from your trend. I have read again the whole of your précis since we parted, and I think you may have some cause of complaint that you have not been able to develop your position so fully as you wished?—I do not think so.

4936. On the other hand, we have it here before us in this concentrated form. We naturally put to you the questions that occurred to us upon it. Yesterday you had discussed with us your view upon the banking position, and had informed us that your chief point was that the banks might reconsider their loan policy from the point of view of getting rid of possibly obsolete ideas as to the provision of credit. Then I think we might pass to the second section, where you deal with the level of real wages?—Yes.

4937. Do I understand that your view is that wages in this country are at present in excess of the economic value of the work?—Of what the economic value of the work would be if there were full employment.

4938. If there were full employment. I see the qualification?—At the same time I raise some doubt as to whether it would not take a very substantial fall in real wages to produce any considerable increase in employment; if the first part of my memorandum is anything like right it means that the demand for labour is fairly inelastic as a whole for the time being, in the sense that you would have to have a big reduction of wages to produce even a small increase in employment.

4939. What reaction would you expect from a decrease in wages in the export trades? Would it diminish production costs?—In all trades, I think, to some extent.

4940. The idea being, by reducing costs of production to stimulate demand?—Yes.

4941. That would depend, of course, upon the reduced costs of production reaching the consumer?—Yes.

4942. Both the consumer abroad and the consumer at home?—Yes.

4943. A good deal is lost by what you call "friction" on the way?—Yes, it looks like it at present.

4944. We see at present a very big drop in wholesale prices without a corresponding drop in retail prices?—Yes.

4945. But the theory, of course, of reducing wages is to reduce costs of production, and in turn stimulate demand, and then the stimulus to demand may enable you to get industry going again, and possibly once more improve the wage position?—Yes. At any level of wages there is a certain number of people whom employers will voluntarily employ, and if that level of wages is lowered the number of people who can find employment at that wage increases.

4946. The part of your thesis which affects the question of unemployment is this, that if the real wages paid are in excess of the economic value of the services rendered, then the tendency is to dismiss men and increase unemployment?—Yes.

4947. So that it has the effect not merely of diminishing the market demand, but also of affecting the number of unemployed?—Very directly, I think.

4948. It may affect unemployment twice over in that way?—(*Witness*): Is it not the same thing—the employers' demand for labour is a reflection of the demand for the commodities that he produces? (*Chairman*): Yes, it is another facet of the same question.

4949. *Mr. Brand*: To what do you think the failure of the demand for commodities is due in the first place?—To the fact that it seems very difficult to expand the consumption of a number of important things at the moment, even by concessions in price.

4950. *Sir Thomas Allen*: In my district it has been a question of under-consumption for very many years;

there has been inability to buy food or clothing, even though they are amenities of life which are really essential, because of unemployment and low rates of wages, and therefore the bootmakers and shirtmakers in the Midlands are unemployed because the miners in, say, South Wales are unable to buy the goods, and yet they want the goods. What is the remedy? The unemployed have not the ability to purchase goods and the earning power of those who are employed is not sufficient for them to secure the amenities of life. (*Chairman.*) That, of course, is the vicious circle which it is so difficult to break. In paragraph **19** you doubt whether a reduction in the wage level would greatly assist the unemployment question?—I think that is one of the difficulties, that one cannot feel sure of the demand for labour being very springy at the moment, or reacting very greatly to a fall in wages.

4951. *Mr. Keynes*: What you say here about the inelasticity of demand would apply to the export as well as the home demand?—I think so; perhaps not so much the export.

4952. Would what you say about a reduction of wages apply equally to a reduction of costs obtained in any other way?—I should have thought, to some extent, yes.

4953. So that you would not expect that rationalisation, even if it secured important economies, would do much for our export trade?—Not a great deal for employment in our export trades. I think you would increase the quantity of goods exported, but if you were making a given quantity of goods with less labour than before—which I take to be the essence of rationalisation—the volume of employment might not expand very much.

4954. *Chairman*: It might diminish?—It might diminish.

4955. *Professor Gregory*: Do you think the world demand for British exports is very inelastic?—I think it is hard to say, as a whole.

4956. I ask that, because of your statement that even if wages were reduced, or costs were reduced in some other direction, it would not make much difference?—Yes, I think it would not, on the whole.

4957. *Mr. Keynes*: I am sympathetic to that view, but it is very much opposed to what we have been told. Most witnesses have told us that if we could secure any material reduction in our costs of production we should get a great increase in our export trade.—One has found that hope to be badly falsified in the case of coal, and one might find it in other cases.

4958. Is there any other means of stimulating demand other than cheaper production?—Only the means I have discussed at the end of the first part, an organised demand for constructional activities reacting on the volume of employment and putting money in people's pockets.

4959. *Chairman*: That is by artificial methods rather than by ordinary methods. The ordinary method is to increase productiveness?—Any method which is the result of concerted planning might be called artificial.

4960. *Mr. Tulloch*: Your construction of instruments of production might be in anticipation of wants, having regard to your first point, that we are suffering from a glut. The primary trouble seems to be a glut?—Yes.

4961. If you are increasing the construction of instruments of production it would be in anticipation of people wanting the goods produced by these instruments after the glut from which we are suffering?—There are certain kinds of constructional goods which directly fill a want; the nation wants them; in that connection one would mention roads, telephones, land drainage, houses, which, while they are constructional goods, are not necessarily instruments for further production; they are directly the means for satisfying wants. I can imagine the programme of construction would be concentrated on those things rather than on the supply of things of which there is a glut. I got into trouble with Mr. Bevin yesterday by giving ships as an illustration of things to the supply of which I would not add at the moment.

4962. I was rather considering things like roads as constructional goods?—They are constructional goods, at the same time they are not a means of production of further goods. They are providing a utility which people seem to like.

4963. But indirectly they would be the means of further production?—They would.

4964. *Sir Thomas Allen*: We had a list made out recently showing the glut in the consumption of certain goods, which are unsaleable. There has been something like 11 to 13 per cent. decrease in the wholesale price of these particular goods; they could to-day find a market if that relative decrease in price were passed on to the consumer, even with the present low wages. What do you suggest should be the remedy? There is not the consumption because the margin between the wholesale price and the retail price is too great for people to purchase them?—I share the suspicion that there is both great inefficiency and a certain amount of monopoly profits being made in the retail trades; but apart from that, I suggest one must not expect in a time of technical progress that retail prices will fall quite as fast as wholesale prices, because one cannot expect the efficiency of distribution of goods to increase as fast as the efficiency of manufacture. I think I mention that in this paragraph—that the price required to distribute goods will not fall as fast as the price required to produce them actually on the farm and in the factory.

4965. *Chairman*: Distribution is not susceptible to the same improvements?—It is not.

4966. As a manufacturer you cannot distribute the machinery to do the work of half a dozen commercial travellers. Your term "glut" is really a relative term, is it not? It means in excess of the purchasing power of the community; it is not that there are too many things in the world, but that the public cannot buy them. It is not a natural glut, is it?—I suggest it is something more than that. There may be an absolute glut of all the things with which people are familiar.

4967. Of course, you can reach the limit of saturation in, say, motor-cars? (*Mr. Brand*): I saw in the paper coming down that in the first quarter of this year General Motors' sales are down by £19,000,000. There was not the glut in motor-cars last year that there is this year. (*Chairman*): That obviously is a commodity to the consumption of which there is a limit. With regard to your proposal of constructional works, do you contemplate that those works would be remunerative to the community, apart from the fact of giving employment; do you regard them as works which ought to be in their nature ultimately remunerative?—Not necessarily in the sense of yielding 5 per cent. interest, but in the sense of adding to the efficiency and well-being of the country, yes.

4968. *Chairman*: I can conceive that £1,000,000 spent on improving access to the docks is remunerative. At the present moment much wastage is taking place owing to delay; if you can give better access and so enable traffic to pass more rapidly, you actually are diminishing costs of production, you are taking something off your on-costs; that is really remunerative expenditure; we get a return for it. On the other hand, the making of an attractive bridge on Dartmoor would probably take just as large a sum to erect, perhaps more, and when it was done it would be of great amenity value, but it would not be as remunerative as the improved access to the docks?—Do you mean the access to the docks would be remunerative in the sense that you could charge tolls of some kind which would yield a commercial rate of interest on the investment?

4969. No; I mean rather in this way, that everything that obstructs distribution must add to the cost of the product?—Yes.

4970. If you are able to facilitate distribution by better roads or means of transport, then you are able to distribute your goods and sell them more cheaply. All that is the objective of improved roads and bridges?—But not necessarily to make the thing a paying proposition which the business man would look at?

4971. It might pay, not in the sense that you could issue a prospectus on it, but in the sense that it would benefit the country. The bridge on Dartmoor would be of no value to the country at all, except an amenity value, and perhaps not that if it were designed by some modern architects, but it would be of community value. (*Sir Thomas Allen*): A bridge across the Severn at Chepstow would cut off 82 miles between South Wales and London, and therefore would be a business proposition. (*Chairman*): There are two kinds of public works, there is the kind of public work which cannot be undertaken by private enterprise, but is beneficial to the community, and actually yields a return; there is the other form of public work which we know under the rather derogatory term of "relief work." It gives employment?—I think there are plenty of the former type to start with before you are driven in on the second.

4972. *Professor Gregory*: Are you not advancing rather a novel theory? If I understand you correctly you are saying there is no elasticity in the demand of the modern world unless you have expanding opportunities for the employment of labour?—It looks very much as if that happens. One would like to say it happens temporarily, but I think it may be a long "temporary," and I do emphasise the case of America, which seems to have staved off depression by scrapping everything at a particular moment and starting again.

4973. I want to get very clearly the full implication of your doctrine. Is it your view that modern technique responds to change in demand so rapidly that there is enormous danger in the modern world, unless there is a collective demand for certain types of things, that we shall never be able to employ more labour? Is that your doctrine?—I am afraid that that may be the situation.

4974. *Chairman*: It is rather contrary to history, is it not? Wealth is protean, and demand is constantly emerging, like the demand for motor-cars. (*Mr. Keynes*): I think we shall hear a great deal more about this question in future. Technological unemployment is a very new idea in this country, but it is not so new in America. In this case of motor-cars—while we have no doubt that the demand for motor-cars will be revived in due course, it is quite likely that the people who have been put out of work in the last three months will never be brought back into the motor trade, they will *pari passu* have found employment in other trades. That is the sort of thing?—That is the sort of thing.

4975. *Chairman*: While it may be true that the same amount of labour may not be employed in making new motor-cars, other industries may be discovered—substituted industries?—They may, but I think it requires a good deal of public, or at any rate semi-public, organising.

4976. *Professor Gregory*: You do not think there is an inherent trend in the modern world for costs to be reduced and prices to go down in order to stimulate a demand?—Is not the phenomenon of this piling up of balances, which I think you agree to some extent, an indication that perhaps people want to keep their money unspent rather than spend it?

4977. Surely that is due to very special circumstances. You would not say people are hoarding bank balances because they do not know how to spend them, but because they do not know in the present state of the money market how to invest them?—I think you can say they are hoarding them because they have ingrained habits of thrift.

4978. *Mr. Keynes*: Is it not because of the abnormal slackness of investment?—I think that is true.

4979. And what it seems to lead up to is, that we ought to save less. That is the trouble?—Yes, and that does involve an organisation of consumption.

4980. *Sir Thomas Allen*: It is my experience, in the business world, especially with the Co-operative Society, which is an association to interest thrifty people, that there is far less saving to-day, because there is a greater dependence upon the State; a feeling has arisen amongst the people that if the worst happens they will be kept in some way or other; more than to anything else, the lack of thriftiness to-day is attributable in the first instance, I think, to that cause, and in the second instance to the newly-created desire for additional pleasures in life through cinemas, and things of that kind?—(*Witness*): Do not the figures nevertheless, indicate that the volume of working class savings is very considerable, when you take into account the building societies, friendly societies, and so on. (*Sir Thomas Allen*): Oh! yes.

4981. *Chairman*: I should have thought that what was wanted was wise direction of the savings, rather than their diminution, and that a revival of trade would provide opportunities for the application of savings. The difficulty is to revive trade—set it going. (*Mr. Brand*): If you take agriculture I should say at the moment in agriculture there is an immense depreciation in the value of property, farm buildings, hedges, and so forth. (*Mr. Keynes*): I should have thought it was much more true to say that the trouble was not excessive savings but under-investment, under-investment being due partly to the high rate of interest and partly to the low rate of profit. (*Chairman*): Is your expedient for bringing about a revival of industry, which is what we desire, that exceptional measures must be resorted to at the present moment by the intervention of the State?—Yes.

4982. *Chairman*: The State must organise expenditure at the moment. Do you regard that as an emergency measure, or as the normal system of the future?—In a sense I regard it as an emergency measure; that is to say, that the degree to which it was applied would be subject to diminution as and when the private demand showed signs of revival. As I think I explained, I think that the State is so inextricably tangled up with a number of these important things that want doing that I should not anticipate the State going altogether out of the provision of houses.

4983. Do you regard this system which you advocate as a palliative, or as the starting of a new régime; a temporary palliative to be discarded when it has served its purpose; a drug, so to speak, which, having cured the disease, should be discarded; or is it to be a diet for the future?—I think it is rather in the nature of a diet. I do not think the State can get out of certain of these directions of capital expenditure.

4984. I suppose that there are certain regions where publicly directed expenditure has everybody's approval. Take, for instance, recent electricity development. That obviously is an excellent example. But whether the method in which it is being done will approve itself to everyone I do not know. (*Mr. Brand*): I would like to enter a protest there. I think it is only bad legislation in the past which has hampered private enterprise and which may have made public enterprise desirable. (*Chairman*): You may come to this position, that having become a drug taker you may have to go on taking more of the drug to cure yourself of the habit?—I do not see that a number of people combining together and buying something through the machinery of public enterprise is necessarily drug taking.

4985. Do you think the people of this country do want £100,000,000 spent on new roads and bridges?—I would rather not commit myself to that figure for roads and bridges.

4986. It is a much discussed figure, we know?—I would lay much more stress on housing and town planning than on roads.

4987. I must say I think that the wise direction of expenditure is of enormous importance at the present moment, though who are to be the judges of the direction in which the expenditure may wisely be made is a question. Do you mean that private enterprise has really thrown in its hand?—No, but there are certain things which it is difficult to provide except through public or semi-public enterprise, I think.

4988. *Professor Gregory*: Can you give us any sort of indication as to how you are to measure the demand? You start with a very pessimistic view as to the gluttability of wants. I agree with you there are certain things which we as a nation can only ask for in common, or we shall not get them. The trouble, to my mind, is what sort of indices you would set up. You could not merely take the volume of employment created as an indication of what it is desirable for the State to do. You refuse to consider the yield of investments, but you are left with a problem, viz., what tests would you substitute?—I think you are, but that at present is the case in a great field of our activities, such as national defence, and education. I suggest it is only extending the principle a little further.

4989. *Mr. Keynes*: Is it the point of your question that the State would not expect to get 5 per cent.? (*Professor Gregory*): No, my point is: Supposing you are going to reject the maximum demand for labour as the indication, and supposing you are going to say it may be desirable to finance this thing so that it does bring an agreed return, what sort of test could one apply? Obviously the problem will arise. (*Chairman*): This is an organised method of meeting wants, is it not?—Yes.

4990. *Chairman*: That is the theory of it. What Professor Gregory is raising is, how you are to gauge the wants. You may be foisting on to the public a great deal that they do not want. (*Professor Gregory*): If Mr. Robertson says that these measures are primarily designed to meet a temporary situation of emergency, the necessity for tests in this case does not become acute, but Mr. Robertson has pinned himself to the view that we may have to face for the next half century a much wider extension. Then the tests of desirability become very important. (*Chairman*): Yes. It is quite true that it is one thing to deal with it as an emergency calling for quite exceptional measures; on the other hand, it is a different thing to say we have entered upon a new economic era, which must be governed by new principles?—Quite; and I think that people who might differ very much as to the degree to which to go in normal times might agree on the degree to which to go at present. I do not see that any particular person should pledge himself to stop it at any particular point.

4991. *Mr. Brand*: Would you stop short at competitive industries? Would you view with approval State enterprise in what you might call the competitive trades?—I should say as a normal feature I should not, but I am afraid I would find it very difficult to draw the line, because housing clearly is, and is likely to remain, a partially competitive industry, and I think that the case is overwhelming for the State to take part in it.

4992. Would you agree that if the State enters into a competitive industry private enterprise is certain to disappear?—If the industry is homogeneous; but the building industry is made up of a number of various parts, and you may get private enterprise building certain types of houses and State enterprise building other types.

4993. But will people embark on developments in an enterprise which must expect competition from the State?—Not if it were in direct competition in the same market.

4994. *Mr. Keynes*: Would you not draw the line between manufacture and retailing and all the other processes, and say that the State must not go in for manufacturing and retailing?—I am not sure that I would say retailing. I am not altogether opposed to municipalities having a go at retailing, but I think manufacture does give a precise line.

4995. The statisticians allege that we are now saving about £9,000,000 a week. Foreign investment, as limited by our balance of trade, is somewhere between £2,000,000 and £3,000,000 a week—probably about £2,000,000. That leaves about £7,000,000 of saving for which you have to find some outlet, or very nearly £1,000,000 a day. If you ask people in the steel industry, say, to tell you what it would cost to put the steel industry completely right, so far as all possible improvements are concerned they mention a figure of something like £40,000,000 or £50,000,000. ((*Mr. Frater Taylor*): £50,000,000. (*Mr. Keynes*): To deal entirely with the steel industry would occupy our savings for seven weeks. For the cotton industry, apart from automatic looms, the figures I have heard mentioned are about £10,000,000—so we could deal with the cotton industry in ten days. And so on. Those are the two biggest. And once done, it is not a thing you would have to do over again every year. Therefore the outlet for our savings in what you would call manufacture is so trifling in relation to their magnitude that one need hardly think about it at all, so one is driven back on the question:—Are private enterprise facilities for the absorption of savings in public utilities, building, transport, and so on, sufficient, and I suppose you would say, What chance is there of our satisfying the really high standard of productivity which would occupy £1,000,000 a day year after year?—I cannot resist the logic of that. I am always a little sceptical about those Colwyn figures, as to whether they can be right.

4996. You think we may be saving less?—I think we may have a little less saving than that £450,000,000 or £500,000,000.

4997. *Mr. Brand*: And is that net saving after taking account of all losses due to depreciation and obsolescence?—The Colwyn figure was after taking account of all losses in the particular business, but whether the aggregate figure took account of losses made elsewhere I do not know.

4998. The depreciation of plant?—That is supposed to be ruled out; deducted. (*Mr. Brand*): That must be an enormous figure.

4999. *Mr. Keynes*: I did not mean my figure to include losses.—No.

5000. *Chairman*: May I take it, as the upshot of this particular part of your evidence, that in your view we should not look to a reduction in the cost of production for salvation?—Not for salvation of employment, if employment is what we care about.

5001. On the other hand, I suppose you would agree that it is desirable to reduce the cost of production. That is the general theory of rationalisation?—Yes, I think so. I do not see that one can refuse to do it to the utmost extent.

5002. You say you would welcome a reduction in wages of 10 per cent. if it were done automatically, over-night?—If it were offered and there were no friction about it I should feel it worth trying.

5003. *Mr. Keynes*: I would be willing to accept the theory of inelasticity in the present condition of world-wide depression, but supposing the present world-wide depression came to an end and we could then reduce our costs by 5 or 10 per cent. by some method which did not apply to the rest of the world, could we not expand our exports?—Yes, I think we could, so far as we were in competition.

5004. The reduction of wages happens to be one of the methods by which we could reduce costs of production without its applying to the rest of the world. Technical improvement is a thing that the Germans might get hold of simultaneously?—I am not sure whether they would not get hold of reduction of wages, too, if it were driven far enough.

5005. Would a reduction of wages fail to do us good because it would be the signal for a reduction of wages in other countries?—I think in the coal trade there were some signs of competition setting in for reducing wages.

5006. *Chairman*: Is not this going very far? It seems to suggest that prices have nothing to do with the market. We seem to be losing our market because of prices, but according to you it does not matter what our prices are?—It is all a question of degree. One would expect some response.

5007. That is a very novel doctrine, though it may be right. (*Professor Gregory*): I should have thought, taking Mr. Robertson's general line of argument, that he would have said " For Heaven's sake do not reduce wages, because this is one way of creating a demand for things which we cannot otherwise get rid of." In a world in which the demand for labour is very inelastic one ought to keep wages up to provide a means for disposing of an otherwise indisposable product?—That argument is often used; I find it hard to see just how much there is in it. One has to draw a distinction between wage rates and the total wage bill. If by increasing wage rates you reduce the total wage bill the argument for keeping them up fails.

5008. *Mr. Brand*: By increasing unemployment?—Yes.

5009. *Mr. Keynes*: The extreme importance of what Mr. Robertson has been saying to us is not rebutted because it is contrary to what other witnesses have been telling us. If we cannot, for various reasons, hope for expansion of our exports the problem takes on rather a new phase. It may be that witnesses who have been thinking that we shall have a very large increase have been looking at it from the point of view of the individual manufacturer. If an individual manufacturer gets his costs down 10 per cent. he naturally commands his market; and I think it might be well for us to try and press for further inquiry into this point; first of all, what hopes there are of a large increase of exports? (*Chairman*): Do you mean with this witness? (*Mr. Keynes*): I think all this witness can do is what he has done, to raise his doubt as to the conclusion why there is a lack of demand for export?—I think there is some tendency on the part of manufacturers in any particular country to assume that anything they do will not affect the world price, if they happen to be producing a large proportion of the trade. It is not sound. If they largely increase what they put on the market that may affect the world price, and they may be disappointed in the extent to which they can increase the proceeds of their sales.

5010. *Mr. Keynes*: And is there not this point to be added, that if we cut our prices 10 per cent. and increase our export trade by less than 10 per cent. in bulk we are worse off than we were before?—Our total receipts are diminished, yes.

5011. *Professor Gregory*: I should like to press Mr. Robertson for some reason why he thinks the demand for British exports is not elastic in the long run. I accept the view that in the short run a cut of 10 per cent. would probably not stimulate our exports very much, but what reason have you for thinking that in the long run the demand for British exports is not elastic?—Well, there is a number of goods, such as coal and cotton goods, in which the competition with other countries is very acute. They are not likely to leave us alone if we try to undercut them.

5012. *Mr. Keynes*: That assumes that the world demand is not increasing. We might escape from this pessimistic conclusion and all this would cease to be true if one had a world-wide demand for investments throughout the world such as would accompany a very large fall in the rate of interest?—Would it accompany it? Mr. Keynes has given us an illustration of the extreme difficulty of getting industries in England to exercise a big demand for capital. If we could completely reorganise our steel industry by seven weeks' savings there are a good many other countries which are in the same position, and even more so, because they have already reorganised their steel industries, and have not to do it again.

5013. *Professor Gregory*: What about those countries which have not yet anything like an up-to-date scale of industrial enterprise—China, and the East generally?—Unfortunately, they are not very attractive fields for investment at the moment.

5014. *Chairman*: But why should they not become so?—I think the political stabilisation of the East might do a great deal to help us out of the difficulty.

5015. *Mr. Keynes*: It seems to me that the effect of a high rate of interest is vital, particularly in housing?—I think an expansion of housing in foreign countries would not help British industry.

5016. But if labour in foreign countries were employed in building houses in foreign countries they would be better able to purchase the products of the exporting countries?—It might work round that way.

5017. It would work round that way if the investment boom was sufficient to take up any margin of unemployment—the first effect it might have would be to cure unemployment in the country in which it took place. I am not now talking of a short period, but if you look forward a long way. It seems to me the trouble is, that if we lend money on a large scale abroad now it does not stimulate our exports, because other things may happen first. But if you assume that there is equilibrium, and all the international centres are lending money freely, and the boom has gone far enough to take up the margin of unemployment, then, if there was an investment, whatever the investment, there would be the demand for exports?—Yes, I agree.

5018. The long period outlook is not so pessimistic as the short period?—I quite agree.

5019. *Chairman*: This again would point to the justification for some emergency measure?—Yes.

5020. Will you pass now to your observations on the gold standard? Of course, any project such as you have been discussing with us just now cannot be looked at in isolation, can it; you have to look rather beyond the confines of our own country?—Yes.

5021. We have to ascertain what may be the repercussions of any policy that we adopt. Living as we do more in an international world of finance, what would be the effect of such an emergency policy as you have been discussing, looked at from its other aspect? Have you considered that?—I think it would be rendered very much easier if the international gold situation were relieved by concerted measures between central banks to make more economical use of the gold that is there.

5022. What you indicate here is that in the interests of us all, not only of this country, but of the world generally, it is essential that all countries should play the game with the gold standard?—Yes.

5023. Therefore you are, I suppose, a strong advocate of concerted action?—Yes.

5024. But pending agreement, are there risks of disequilibrium? At the present moment countries are not all playing the game, as you know, and until that concerted action is attained are there difficulties in the way?—I think it does add to the difficulty.

5025. What exactly is the difficulty that you have got in mind? Is it that we have to take certain action in this country from time to time to counteract what is happening abroad?—Yes. The line which I have suggested does require the co-operation of the financial system in the expansion of credit, and under existing arrangements that might lead to a situation setting up a flow of gold which would then have to be counteracted.

5026. If we were able to look at it from the internal point of view the problem would be much simpler?—It would certainly be simpler.

5027. But as we have to look at it outside as well as inside, we have two things to look to which are not governed by the same cause, and are possibly out of harmony with each other?—Yes.

5028. Is that the kind of difficulty which you have in mind?—Yes, I think it is a very real difficulty.

5029. I would like very much your help here. Where does the difficulty arise?—I think that a policy which would be suitable for us at home would involve some expansion of credit, a certain expansion of imports, and would therefore tend to promote an efflux of gold which might have to be counteracted in the ordinary ways by higher Bank Rate and so forth.

5030. Contraction of credit?—Yes.

5031. So that you would have on the one hand the desirability of expanding credit, and on the other hand the necessity of contracting credit?—Yes.

5032. Is that dilemma an inextricable one?—Well, I think that one could devise certain schemes for putting a buffer in the way, as it were, which I have suggested in paragraphs **23** and **24**, but I do not think that one can expect a great deal of them. The one in paragraph **23** is one to which I attach some importance, because it seems more simple, and it is already in operation in America. That in paragraph **24** is more revolutionary, perhaps.

5033. Let us look at paragraph **23**, which you think is the change which deserves our main consideration. That is, apparently, that the banks should keep a substantially smaller proportion of reserves against time than against demand deposits?—Yes.

5034. *Professor Gregory*: That does not help you very much, does it?—No, it does not help this emergency very much, unless you made a change at the moment; if you were to introduce this change at the moment it would make a very large expansion of deposits without infringing the gold standard.

5035. *Mr. Brand*: You say the aggregate deposit liabilities of the banks could be increased by 70 per cent.?—That is how I work it out, if you could preserve the proportion of roughly 50-50 between current and deposit accounts.

5036. *Professor Gregory*: You are assuming three per cent?—Three per cent. and ten per cent.

5037. *Chairman*: This is an operation which could only be done once?—It could only be done once. Its importance would be rather in the future, as giving greater elasticity. I do not think it does help very much in relation to the immediate problem of doing something at present. It is rather a long-period device for producing elasticity in future.

5038. *Mr. Lubbock*: It is really a suggestion that the banks should keep a less cash reserve?—Yes, on the average.

5039. *Chairman*: That brings us back to the point of the anxiety of the banks which leads them to keep a large proportion of their assets liquid?—Yes, it is another application of the same principle.

5040. As regards time deposits, they know they will not be called upon; they know they are under no legal obligation?—Not immediately.

5041. In contrast with their demand deposits, which cause them anxiety that there might be a run upon them, and that they might have to produce the money on demand?—Yes.

5042. You distinguish between the two?—The Americans do it, and I think with success.

5043. *Mr. McKenna*: The American scale, reduced to our figures, would mean that the banks would keep on an average a total of 9 per cent. instead of the total of 10 per cent. which they now keep?—Is that all?

5044. That is all. They keep three instead of thirteen?—It averages ten.

5045. An average on the total of 9 per cent.—That is on the American scale.

5046. If we kept the same ratio it would mean a reduction of our percentage from ten to nine?—That is, assuming that the proportion between the current and deposit is the same in England as in America.

5047. I am dealing with our proportion. If we kept three on our deposit money and thirteen on our current money we should keep an average of nine?—I was taking it as ten on the current.

5048. *Mr. McKenna*: No, the Americans take thirteen. (*Mr. Lubbock*): Thirteen in the cities; it drops to ten in the country?—I think in the whole country it averages ten.

5049. *Mr. McKenna*: The Americans keep thirteen; that would average, over a period of time with us, nine against ten. The American figures are statutory. They have to keep them?—Yes.

5050. Ours are not?—No.

5051. I think that we show on a weekly average 10 per cent.; I should say the daily average would not be more than nine, and I doubt, therefore, if we do keep, on the whole, a larger cash percentage than the Americans. (*Mr. Keynes*): Would not the object of this proposal be not so much to save reserve moneys as to render it easier to take advantage of a transfer from one kind of account to the other? It would not mean upsetting the whole system. That is the object, not so much to effect a reduction as to give greater play. (*Mr. McKenna*): If the banks kept a less cash ratio how would you guarantee against a reduction of their total cash?—I regard the total cash as being a matter for the Bank of England.

5052. *Mr. McKenna*: How would you guard the banks against a reduction of their total cash at the Bank of England?—(*Witness*): I am assuming the Bank of England is also going to try. (Mr. *McKenna*): But we are in quite a different position.

5053. *Chairman*: The purpose of this suggestion is to enable an expansion of credit to be made?—The purpose is to allow a greater elasticity of credit.

5054. Elasticity means expansion and contraction; but supposing expansion were effected by this means, even to the extent that Mr. McKenna indicates, again you would have to look at the result from the international point of view?—Quite.

5055. It does not seem a remedy for the international difficulties?—I do not think there is any radical remedy for that, except going off the gold standard or controlling the behaviour of gold in concert, but I think you can do a certain amount by this buffer device. I think the experience of the last few years has shown that the Bank of England has done a certain amount by not paying attention to every movement of gold in and out. It has a certain device similar to this for making us a little freer on the gold basis.

5056. Your main concern is with the desirability of concerted action of the Central Banks?—I think that is of overwhelming importance.

5057. *Mr. Lubbock*: I am not sure whether you suggest a restriction of or any discrimination against foreign lending?—I deal with that at the end of my statement. The other proposal I suppose is too utopian to be considered, but it would give us greater elasticity, if our gold holdings could be kept avowedly for the purpose for which they are required, and not, as at present, as an ornamental backing to the notes

5058. Are they kept as an ornamental backing to the notes, and not for the purpose of meeting foreign drains?—They are really kept for the purpose of meeting foreign drains; but nominally they are kept pound for pound against the notes.

5059. *Mr. McKenna*: In fact, the only use to which the gold could never be put is the legal use—paying out against notes?—My note still says it is a promise to pay on demand a sum of £1. It is not.

5060. *Professor Gregory*: You do not pin yourself to precisely this form of division?—No, not precisely.

5061. You would be quite satisfied if the Banking Department were combined with the Issue Department?—That would have much the same effect.

5062. Do you think it would be better to have no limitation on the fiduciary issue?—I do not think there would be any point in having any limitation on the fiduciary issue if one were starting the thing afresh.

5063. *Mr. Lubbock*: You would not have any provision for fixing the legal amount of reserve?—I would suggest having a legal proportion fixed between the things that really matter, namely, the gold reserve and the bankers' balances.

5064. Do you not think our position of freedom is infinitely superior to that of those banks who are tied down?—It is freedom in one direction and restriction in others.

5065. *Mr. Keynes*: Do you think that it is any more advisable for the bankers' balances than for the note issue to be forced to vary to a great extent? It seems to me that the present note issue formula has resulted in a smaller variation than your formula might require?—I do not think I know enough about the technicality of gold movements to be able to say. I should think that normally the demand for gold for export came through the bankers' balances, and if that is so a great efflux of gold might reduce the bankers' balances to nothing.

5066. But only if the Bank of England did not replace the gold by securities?—Yes.

5067. And if it did not replace the gold by securities it would have a very violent effect on the bankers' deposits?—Yes.

5068. So you would have just as great an upset to the habits of the public as if you had to force a reduction in the notes. Just as the existing system means that you cannot withdraw gold unless you reduce the note issue, so your system would mean that you could not withdraw gold unless you reduced the deposits of the banks?—Does not the existing system mean that you cannot get rid of much gold without a violent reduction in the bankers' balances?

5069. *Mr. McKenna*: You would not reduce the bankers' balances. The bankers would replenish their balances?—How could they do that?

5070. By notes. They could force the Bank of England to create more money. The banks keep customary balances with the Bank of England. They retain the balances more or less at that figure. We may get a demand for gold for £5,000,000 to-morrow, but if we got that demand we would replenish our balance with the Bank of England the same day by paying in £5,000,000 of notes. Then we should probably be short of cash; we should replenish our cash by calling on the market. Our bankers' balances would not go down?—I was assuming that the amount of reserve which they kept in notes and balances at the Bank of England was determined by their needs for meeting cash payments and clearances, and that you could not vary the proportion.

5071. You could not vary the proportion of cash?—(*Witness*): No, you could not vary the proportion between your note holding and your balances with the Bank of England. (*Mr. McKenna*): We should replenish our notes within a couple of days by a call from the market. Our balance at the Bank of England would be replenished the same night.

5072. *Chairman*: Now, may we pass to the fourth and last section of your evidence—Disturbances in the Balance of Payments. There you discuss the question of investment abroad, to which Mr. Lubbock was referring a moment ago?—Perhaps I might make plain the point of this last section. I think there are broadly two views as to the kind of way we ought to try to get out of the present trouble. One is, that we ought to try to do so by getting back as nearly as we can to the pre-War volume of our export trade. The other is, that when one comes to look at it from the point of view of the national interest there is no very great object in doing that in the long run, because we can obtain all the imports of goods and securities which we really want with something like the present volume of exports. If that be true, then the fundamental remedy for the situation is not to produce what would be an artificial expansion of exports to bring us back to the pre-War level, but to try to utilise in every way the resources which have become redundant in the export trade. The former view is that of Professor Clay in his book, "The Post-War Unemployment Problem," and I am suggesting that it is not the right one, that it may be a palliative to force our exports on the world at low prices, but that the ultimate state of equilibrium at which we ought to aim is one with a volume of exports not very much greater than we have at present, trying to make use of the resources so freed in other directions. The main piece of evidence which I put forward for that is this rather startling change since pre-War times in the terms with which we apparently exchange our exports of manufactured goods for our imports of food and raw materials. That change means that we are able to get our food and raw materials cheaper in terms of effort than we used to do, and *prima facie*, if we are in that favourable position, we ought to make use of it instead of throwing it away by forcing our exports on the world at a lower price than we need. That is the main thesis, I think, but it does depend on the assumption that we are satisfied to have something like our present volume of foreign investment of £100,000,000 or £150,000,000 a year. It, therefore, raises the further question, whether we have only kept down to that figure by having artificially high rates of interest, and embargos and so on. Looking at it from the point of view of the national interest it seems to me that that sort of rate of increase of our foreign investments is decently great, there is no reason to be worried because we are not investing abroad substantially more than that; and if you accept that view then it follows that the right thing to do is to try to transfer the resources no longer required for export in the way I have suggested, and it may also involve, as the corollary, that if private individuals in this country are trying all the time to invest abroad on a bigger scale than that, they have to be stopped by some discouragement of foreign investment, by differential taxation or any other way.

5073. *Professor Gregory*: When you talk of this country forcing its exports on the world, are you thinking of the short run, or the long run?—I think it applies to both, because so far as one can see it is a fairly permanent change that has happened; it has shown no sign of altering much over the last five or six years at any rate.

5074. The suggestion behind the statement that we are forcing out our exports is that the cost of a representative unit of British exports remains constant in terms of the labour that is producing it. If you have an increase of efficiency throughout the world the terms of trade may alter to your disadvantage without real loss being sustained. If you increase the efficiency of British industry the terms of trade may alter to your disadvantage in the long run, but you may suffer no real loss?—No.

5075. There is an implied suggestion in "forcing our exports"?—Yes; when I speak of terms of trade, I mean the terms in which our country's labour is exchanged for other countries' labour.

5076. *Chairman*: One assumes that exports would flow. You use the expression that they have got to be pumped?—They have got to be pumped if you are prepared to see the standard of life in the export trade lowered more than in your home trade.

5077. *Mr. Keynes*: We should be doing something drastic to keep the price of our goods down?—Yes, and I think it is arguable that we are doing it now in the sense that the level of incomes in the export trades is below the general level in the rest of the country. I suggest that because there is a gap between the incomes in the sheltered and unsheltered trades, one must not assume that it is the unsheltered trades that are at the right level for the whole country and the sheltered trades are at the wrong level. The right level for the whole country, if we could distribute our resources rightly, would be somewhere in between.

5078. You suggest, if it were done in terms of expanding exports, it would turn the terms of trade against us. Would that apply equally if you diminished our imports? Would we not then have a larger surplus on the balance of trade without turning the terms of trade against us?—We should if we assume that we can permanently reduce our imports without having some reaction on our exports; temporarily, no doubt, that is true, but I still cling to the notion that imports and exports exchange and if you go in for a permanent policy of restricting imports you find your export trade hit. I think by a tariff there is a chance of turning the terms somewhat more in your favour than there would otherwise have been a possibility for.

5079. You think those who are for going in for foreign investment ought to look with a more friendly eye on tariffs than those who are not?—Yes.

5080. But in actual fact it is always the other way round?—Yes.

5081. *Chairman*: The point you make in paragraph 30 you describe as highly paradoxical, but it is very interesting. If the prices of raw materials drop, as they are dropping, to the man in the street that would seem to be a great advantage?—Yes.

5082. He ought to get things cheaper?—Yes, and fundamentally it is an advantage.

5083. Then you suggest that it may injure us by reducing the quantity of exports which we send in return for our imports?—Yes.

5084. If that be the consequence, then the moral which you ask us to draw is that we should make a special effort to absorb in useful occupations at home the productive resources which are being rendered superfluous by the diminution of the export trade?—Yes.

5085. *Mr. Keynes*: Is not the explanation of the paradox that if we are to get the greatest possible benefit we should persuade some foreign country to take our goods without paying for them? (*Mr. Lubbock*): Not paying immediately for them. (*Chairman*): Or not paying entirely for them. (*Professor Gregory*): Surely the explanation of the paradox is that there is not one. If you are considering only the question of how we can employ people, it is one thing, but the number of people employed in the export trade is not the measure of the prosperity of the country?—Yes, but to many people that would appear a paradox.

5086. *Chairman*: Your suggestion is that we should prepare suitable asylums for our export trades' reception. I notice you use the term asyla. I would like you to develop this question of foreign investment a little?—I think that is a matter in which I really cannot be of any help to the Committee when it comes to practical suggestions as to how you can discourage foreign investment.

5087. I quite follow. It is very difficult, of course, to control the individual, but what I want to get from you, assuming it is practicable either by propaganda or by compulsion to reduce the extent of foreign investment, the first thing is, would that be desirable, and, secondly, what would be the benefit accruing to us from such policy?—Yes, I think it would be desirable.

5088. Why?—Because it would make it easier to expand investment at home without the fear of lowering your rate of interest at home, leading to a great rush of foreign borrowers.

5089. You must still, of course, make these asyla attractive?—Yes; I think that foreign investment may be better than no investment at all; that is to say at the moment I should suppose that an increase in foreign borrowing, by increasing the purchasing power of foreign countries, might have some beneficial effect on unemployment in this country; it is only when it comes to a choice between the two that the effect of the home investment seems to me to be generally more direct and certain than that of the foreign investment.

5090. *Professor Gregory*: Just now there is a distinct disinclination to invest anywhere?—Yes.

5091. Supposing you impose differential taxation or discourage foreign investment in other ways, do you not think one of the real difficulties that you have to meet is the prospect that savings might accumulate in bankers' balances without being used for home investment?—I think I would put as part of the scheme the stimulus of home investment; I think if you discourage foreign investment without stimulating investment at home you may be worse off.

5092. *Mr. Tulloch*: There is a passage in paragraph 26 of your Memorandum which I do not understand. You say, "But a country in which this natural harmony"—to which you refer—"is broken through an increase in the desire and/or a diminution in the ability to lend abroad, may find itself with an uneconomically high level of domestic prices, including money incomes, as compared with the rest of the world." I should like you to explain that if you would?—If everything is working smoothly every country gets the amount of gold which it deserves and the level of money incomes in that country can be taken to be a natural level and one need not be afraid because wages are higher in England than in other countries that anything much is wrong.

5093. I agree?—But supposing you get either an increase in the desire of private investors to lend abroad or a diminution in the credit balance on current account which the country has available for investment abroad, then you get a break between those two things and the tendency then will be for gold to flow out of that country and for money incomes to come down. Until they have done so they may be at an uneconomically high level.

5094. *Mr. Keynes*: Mr. Robertson says he is not prepared to make practical suggestions as to how we should discourage foreign investment. (*Chairman*): No, he says that is a province he would rather not discuss. (*Mr. Keynes*): I understand that he says that all this argument strengthens the conclusion which he reaches in the first part of his Memorandum?—Yes.

5095. *Chairman*: Mr. Robertson, it only remains to thank you very much for your attendance. We have had a most interesting discussion and we are particularly indebted to you for producing so very full and careful a statement of your views, which we have studied with great interest.—Thank you very much.

(*The Witness withdrew.*)

(*Adjourned till Thursday next*, 15*th May*, 1930, *at* 4.30 *p.m.*)

TWENTY-EIGHTH DAY.

Thursday, 15th May, 1930.

Present:

The Rt. Hon. LORD MACMILLAN, *Chairman.*

Sir THOMAS ALLEN.
Mr. ERNEST BEVIN.
The Rt. Hon. LORD BRADBURY, G.C.B.
The Hon. R. H. BRAND, C.M.G.
Professor T. E. GREGORY, D.Sc.
Mr. J. M. KEYNES, C.B.
Mr. LENNOX B. LEE.
Mr. CECIL LUBBOCK.
The Rt. Hon. REGINALD McKENNA.
Sir WALTER RAINE.
Mr. J. FRATER TAYLOR.
Mr. A. A. G. TULLOCH.

Mr. G. ISMAY, *Secretary.*

Mr. Arthur Kitson and Mr. W. H. Bolton, representing the Economic Freedom League, called and examined.

STATEMENT OF EVIDENCE SUBMITTED BY Mr. ARTHUR KITSON.

The Relation of Finance to National Interests.

1. The enquiry of this Committee differs from the previous financial enquiry of the Cunliffe Currency Committee of 1918, as the terms of reference clearly state that recommendations should be made to promote the trade and commerce and the employment of the people.

2. I had the honour to submit evidence before the Cunliffe Currency Committee in January 1919 in the form of a printed Criticism of the Committee's First Interim Report, and I pointed out to the Committee that the policy of currency-deflation which they recommended, leading to a return to the gold standard at pre-war parity, would produce very serious economic disasters for this country, and would result in:—

(*a*) A serious inflation of all war debts, and especially of the National Debt, as well as interest charges payable thereon.

(*b*) Destroy enterprise and raise the costs of production.

(*c*) Reduce the volume of trade together with wages, salaries and the earnings of the producing classes, which would further reduce the effective demand for goods.

(*d*) Create wide-spread unemployment, wholesale bankruptcy and general discontent.

(*e*) Reduce the amount of our exports of manufactured goods by raising the prices of British goods in terms of foreign currencies.

(*f*) Would make it impossible for the Coalition Government to carry out the promises made by Mr. Lloyd George and his associates.

(*g*) Lower the standard of living for the whole nation.

3. I strongly advised the Committee to let the currency alone, and to allow production to overtake demand, which would bring down the level of prices. This would have been the most rational method of meeting the situation which existed immediately after the War. To bring down prices by deliberately contracting the volume of currency and credit (I predicted) could only end in national disaster!

4. A reference to the evidence which I submitted will show that my predictions have been fulfilled during the past ten years, and I estimate the losses that this disastrous financial policy has inflicted on the trade and industries of this country to be as great, if not greater, than those experienced during the whole period of the Great War. I believe I can claim to be the only witness who predicted these disasters.

5. We have experienced and are experiencing a repetition of the disasters which our forefathers experienced after the Napoleonic Wars, and as a result of a similar financial policy that was pursued after the Battle of Waterloo. No sooner had the Battle of Waterloo been won, than the financiers commenced to agitate for the destruction of the currency notes issued under Pitt and his successors for enabling the country to "carry on" through that long period of warfare with France, and establish a gold basis for the currency. The currency was contracted—all war debts were inflated, the level of prices was forcibly reduced, enterprise was destroyed, trade and industry were depressed, and unemployment became rife throughout the United Kingdom. This period of depression lasted for thirty years and ended in what was known as the "hungry forties." Details of the disasters that this country experienced as the result of that policy may be found in the writings of that period, especially the pamphlets issued by Carlyle, Sir Walter Scott, and the Birmingham Economists in the Gemini Letters. Statistics prove that every period of currency contraction has resulted in debt-inflation and general economic disasters.

6. Money is the tool of trade. Indeed its importance is now so obvious that it has even been termed the "life blood of commerce." Does it not follow that the volume of currency must determine the degree of a Nation's prosperity? *What should be the Volume of the Currency that will enable British Trade to Prosper?* Has any Government Committee ever undertaken to give an answer to this question? Consider the unfortunate position of the average business man at the present time. Governments have enacted laws making the payment of debts in legalised currency compulsory, and yet no Government so far has ever taken the trouble to ascertain what amount of currency is needed to enable the people to pay their obligations promptly, nor to ensure a sufficient supply.

7. On the contrary, they have enacted these monetary laws usually under the direct advice of money-lenders, who are interested in keeping the money supplies short, and they have now handed over this priceless privilege of issuing money to a private trading company known as the Bank of England. And what obligations have the directors of this private trading company undertaken on behalf of the public? The Bank of England, like all other private trading companies, is in business to make profits. The Bank is under no obligation to meet the demands of British trade and enterprise. On the contrary, it is well-known that the Directors of the Bank of England do not hesitate to supply the needs of foreign countries with British credit when it pleases them to do so, whilst at the same time British trade may be suffering for lack of credit.

8. The fundamental evil in our financial system is the fact that it is purposely made international in character. The theory that "sound" money is money that will circulate abroad, was the one that led Sir Robert Peel into the foolish errors which he made in establishing the Bank Charter Act.

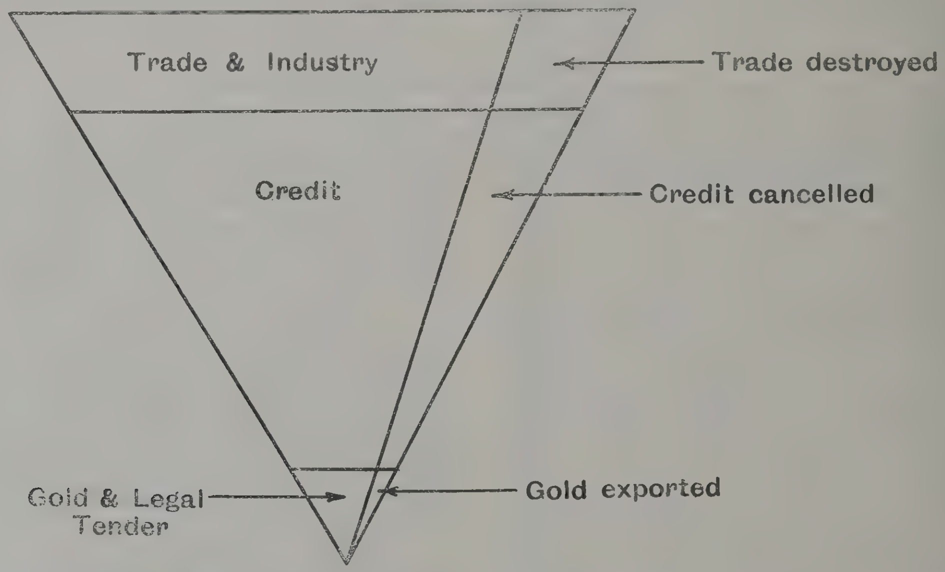
9. *Money is always National in Character.*—In England we have the pound sterling, in France the franc, in Germany the mark, and in the United States the dollar. Each country has its own national system and there is no money which can be said to circulate outside of the jurisdiction of the country in which it is issued.

10. Gold is a commodity and is of international value, *but gold is not necessarily money.* A golden sovereign may be exchangeable abroad, but only as a commodity or for the purpose of repaying a debt to this country. This distinction between gold and money can readily be put to the test. Take a golden sovereign and melt it or destroy the inscription with a hammer—what has become of the money? It has vanished—although the gold may be intact, and nobody would take it for a sovereign until it has been recoined.

11. Money is like the King, whose power and prestige is confined to his own country. Money ceases to be legal tender outside of the country issuing it, just as the King becomes a private citizen the moment he steps upon foreign soil.

12. The effects of attempting to make British currency international in character has made the volume of our home trade, as well as our industries, dependent to a large extent upon the amount of gold that the Bank of England is able to retain in its vaults.

The following illustration will make this clear:—



13. It will be seen that the volume of credit and consequently the amount of trade and employment are constantly varying, with the amount of gold in the Bank. It is estimated that for every pound's worth of gold in the Bank, twenty pounds of credit have been issued against it. It follows, therefore, that if a certain amount of gold is shipped abroad, twenty times that amount of credit must be withdrawn in order to maintain what is known as "a safe ratio" between the gold and credit.

14. As London is the only free gold market in the world, it follows that the amount of gold in this country is constantly varying, which accounts to a large degree for the fluctuations in our trade conditions, and also in the Bank Rate. Prior to the War the price paid by the industrial community for London's free gold market was the most variable Bank Rate in the World. Further, the gold standard places a limit on the amount of currency and credit that can be issued, which has no relation to the amount of trade which the country is capable of transacting, and which should be limited only by the wants of the people.

15. The bulk of the world's gold supplies is controlled by an international group of bankers, whose headquarters are in New York. As will be seen from the diagram in paragraph **12**, the control of gold means the control of the World's trade and industries. *It is surely a dangerous policy to allow this country's financial conditions to be at the mercy of our chief industrial rival!*

16. An important feature of our present financial system is that it tends to enrich the banking and money lending interests *at the expense of the producing classes;* and even when trade is most depressed the Banks have made their greatest profits!

17. A banking system that can flourish on the ruins of industry, is a menace to our national solvency.

18. Under any rational banking system—which after all is merely a means to an end, viz., the production and distribution of goods—the prosperity of the banks should vary directly with the prosperity of trade and industry. Unfortunately for this country, London's banking system is now international in character, so that the prosperity of these institutions is not entirely concerned with the condition of British trade. It is well-known that many foreign industries—especially those of Germany and America—have been built up with British credit and have succeeded in crippling their British rivals. The writer can give examples of how London bankers have given credit facilities to foreign manufacturers, which facilities were denied to their own people.

19. It should also be remembered that the Bank of England, which holds the key to the whole financial situation of this country, is officered very largely by representatives of foreign and overseas banks, who naturally seek accommodation for their own people.

20. The system of creating bank loans has produced a curious anomaly which reveals the weakness of the financial system in practice. Credits and debts are the positive and negative aspects of wealth, yet both rank equally as a basis for interest charges; the War loans being an outstanding example of interest-bearing debts. The able work of Professor F. Soddy, F.R.S., on this subject is well worth the careful attention of the Committee.

21. The restrictive legislation regarding finance, is responsible in the writer's judgment for most of the economic evils from which we are suffering. Take, for example, the subject of municipal enterprise. Does it not seem ridiculous that not one of our great industrial centres, such as Leeds, Liverpool, Birmingham, Bristol, is permitted to employ the credit of its own citizens for creative purposes and for such work as clearing away the slums; but is compelled to apply to private money lending firms (such as those run by Hatry and Co.), and pay such charges as these firms choose to make, in order to carry out undertakings which are of the utmost importance for the wellbeing of the public?

22. The question arises to whom does the credit of this country rightly belong? Who has created this credit? Is it not due to the producing classes, to those who really create wealth—to the manufacturers, the merchants, the farmers—in short to both labour and capital? Where do the banks obtain the credit for which they charge such high rates of interest? Is it not from the public? And why should not the British Government utilise the national credit for creative purposes instead of pawning it to the banks and allowing them to use it, and so burden the tax payers with ruinous interest charges?

23. *Industrial depression and unemployment could be remedied in a comparatively short time if the Government would exercise its undoubted right to employ this national credit direct to assist industry, instead of leaving the country to the mercy of these money-lending institutions.*

24. No permanent solution of our economic difficulties will be found outside of a complete change of the relations now existing between finance and wealth production. No nation has ever become rich or prosperous by mere money lending. The basis of this country's existence is wealth production; and unless and until production is made free from its present enslavement to the banks, this country will never again occupy its former position as the World's leader in trade and industry.

STATEMENT OF EVIDENCE SUBMITTED BY MR. W. H. BOLTON.

THE RELATION AND EFFECT OF FINANCE ON INDUSTRY.

The Position of Industry.

1. British industry is passing through a critical period. Taking only facts which would be acceptable to every member of the Committee it could be stated that:

(*a*) There are over a million willing workers unable to find employment.

(*b*) Every basic industry is in a depressed condition through lack of orders.

(*c*) An increasing difficulty on the part of firms engaged in production and retailers to make satisfactory profits.

(*d*) There is overproduction in the Dominions and countries producing raw materials and food.

(*e*) There is overproduction in Great Britain of manufactured goods of all descriptions, due to the latter being limited to sales.

(*f*) An increasing number of British people are below the "poverty line."

(*g*) The volume of the world's trade has increased slightly but the British share has diminished.

An Examination of the Position.

2. There is no shortage of opinions as to the cause of the position, infinite in their variety; indeed it is possible to include reasons from sun spots to the old proposals for harder work and longer hours.

A leading industrialist, Sir Arthur Balfour, dealt in a very brief manner with the cause in a recent address at Glasgow before the Foremen Engineers and Draughtsmen. He stated: "There was only one answer as to why we had lost a proportion of the world's trade. Our cost of production was too high." Dealing with the influence of finance he went on to say: "One thing had stood firm throughout all our troubles—our banking system. It was wonderful how they reduced the bank rate to four per cent., but what was industry to do with its surplus plant? Cotton for example had more plant than could be used. We would have to destroy a large proportion of our machinery and work half-time."

Another prominent industrial leader, Mr. W. L. Hichens, stated recently that "ultimately the present uneconomic and wasteful individualism would be superseded by international co-operation. They wanted economic trade organisation adjusting world supply and world demand."

3. The diagnosis that our costs of production are too high accounts for some loss of the world trade. The proposed remedies of lower costs, additional exports and rationalisation will be examined later.

The question propounded by Sir Arthur Balfour: "What is industry to do with its surplus plant?" seems to be addressed to the bankers as it was directly associated with the reference to our wonderful banking system. The question is of the utmost importance to the Committee.

4. The observations of Mr. W. L. Hichens go much deeper and need some practical methods evolving to enable the application to be made so that it is one of mutual interest to all countries.

5. A prominent banker, Mr. F. C. Goodenough, remarked that:—"The real problem of the present time was that of markets and prices, showing that we must be able, as far as possible, to pay for our imports by our exports. This would leave the greater part of our invisible receipts to be applied by the investing public in making those foreign investments, which had helped us to develop foreign markets in the past, and to build up, to a great extent, the industry and trade of the country."

The conditions laid down by Mr. Goodenough have been fulfilled. The trade balance of the country has always been in our favour. Foreign investments have constantly accumulated until they have reached such colossal proportions that the borrowing countries cannot re-pay the interest of £250 millions per annum without obtaining fresh loans. In spite of these conditions the position of industrial England is steadily becoming worse.

Other Remedies.

6. *Additional Exports.*—The share of British trade in the world market is steadily diminishing, in spite of a total increased volume. This share will tend to decrease further, for the following reasons:—

(*a*) A proportion of the exporting of manufactured goods from England, the U.S.A. and Germany consists of capital goods (machinery and equipment) thus enabling such importing countries to supply themselves with their own manufactures and later to enter the world market as competitors.

(*b*) The financial power of the U.S.A. will take up foreign investments and place orders for exports in the U.S.A.

(*c*) As other countries secure their own equipment the lowest selling prices will be directly influenced by the country with the lowest wages and lowest taxation. This low selling will re-act against England.

The proposed remedy of increased exports for this country will not produce any solution. There will be in the future an increasing number of countries with productive capacity enabling them to export manufactured goods and also an increasing number of importing countries putting down machinery to supply themselves, as for example the British Dominions, and thus restricting the world export market.

The power of finance to create trade by making foreign investments and placing orders for equipment and other manufactured goods in lieu of money for the investment, will ultimately fail because each investment will have to bear interest and such interest payments will have to be met by the borrowing country making direct exports to its creditor country.

7. *Mass Production and Lower Prices.*—The application of mass production machinery enabling larger outputs to be obtained, increased efficiency and lower costs per unit of work, does produce lower prices and increase sales. It puts certain firms in the position to make a profit and misleads many industrial people to believe that along this road will be found the remedy.

Outside the engineering industry few people have any conception of what mass production machinery means. It introduces certain advantages and no one examines the position thoroughly to enquire what price must be paid for its application.

If the object of industry were to produce goods with a minimum of human labour, then mass production would be extremely desirable.

Mass production machinery means interchangeability of products, it demands accurate machinery made as far foolproof as human intelligence can make it. It converts the operator from a skilled man into an—operator. It enables a woman in the engineering trade to do the work of 16 men on a straightforward manufacturing job. It enables a steel worker in a cogging mill to do the work of more than 50 men, and in a modern steel tyre mill it increases the efficiency of every unit worker to that of 50 men.

In former times, the application of new machinery transferred men from the displaced industries to new industries such as engineering. To-day the engineering industry can deliver all new machines required, it can in addition equip a new industry like wireless, and even then has its own army of unemployed.

Mass production plus rationalisation will improve the condition of individual firms and groups of firms, but it will ultimately definitely increase the number of unemployed. It also knocks the skill out of the work and opens up a field for the employment of women and cheaper labour to displace men.

Mass production machinery is independent of locality; steel works are being put down in Pretoria. It is possible to manufacture goods in any country of the world, and the tendency will be to utilise such machinery where the labour will be cheapest, in the future.

Sir Arthur Balfour's solution would enable a few firms to show profits, but it would increase the number of unemployed.

8. *Rationalisation.*—The reorganisation of industries with the amalgamations of firms will reduce overhead expenses, cut out competition and prevent overlapping.

The sales departments and general clerical staffs can be efficiently organised to reduce many departmental expenses and secure co-ordination.

This saving of expense cuts down in a drastic manner the clerical staff of firms, it enables the firms to maintain better selling prices due to the elimination of competition.

It definitely creates unemployment estimated in the staple industries from 10 to 33 per cent. It is ruthless in its application and involves in some cases whole towns in severe hardship as, for example, the town of Penistone.

If the object of industry is to produce and effectively distribute goods with the minimum of labour this system would be admirable.

9. *Emigration.*—The remedy of emigration is largely confined to this country and is prompted by the false assumption that there are too many people in the country for our industries to maintain.

Emigration causes this country to lose the best type of skilled worker. The engineering industry has lost thousands of its most skilled workers to America and this must be nothing less than a pernicious drain on the resources of the country.

In the case of emigration to the Dominions, it causes unemployment because the limit of the colonial export market has now been reached and there is already overproduction. Under existing conditions the competition of emigrants for available jobs reduces the standard of living and the wages of colonial workers.

10. *Safeguarding.*—The erection of tariff walls giving protection to home industries (if prices were not raised) would secure the home market for our manufacturers and would reduce our imports. It would find more work for our people and reduce the number of unemployed. It would, however, only scratch the surface of the problem and not take off any perceptible number of the unemployed because the power to produce goods is so great that the additional orders would be absorbed without much effort.

The U.S.A., in spite of its protection and its increasing share of the world trade has its own huge army of unemployed.

11. *Capital Expenditure.*—New schemes for roads, electricity, telephones, railways, canals would increase the efficiency of industry but would create further burdens of interest charges.

The net effect of such schemes would be to create enormous loans, making the country still further under the economic power of financiers and to saddle the community much further with interest charges and taxation.

The increase of efficiency in industry resulting from such an application of improved facilities would eventually displace still more labour; as an example, obtaining electricity from water would displace coal miners. In Italy the Fascist Government in the seven years of its existence has constructed, or has under construction water power developments which will release the country from two-thirds of the burden of purchasing its entire coal supply from abroad. (Mussolini.)

If the purpose of industry is to utilise the energy which science has placed at the service of man to reduce his toils and give him the products of industry then, such capital expenditure would be extremely desirable.

12. *Socialism and Communism.*—A change to the State ownership and administration of industry would not add to the quantity of work; on the other hand, some overlapping might be saved and, in the opinion of Socialists, efficiency improved. This would produce more unemployment.

Drastic taxation of the rich in order to redistribute more equally the national income would not increase the total amount of work. It would reduce the work on luxuries and motor cars and increase it on necessities, leaving the total unchanged.

If the principle that the function of industry is to find work and to create the market for goods by the wages it receives is unchallenged, then Socialism would not improve matters. It would merely change the income of the wealthy and distribute some of it among the poor. It would be social in its effect rather than economic.

On the other hand Communism, with its disregard for the rights of property and its insistence on the ownership by labour of commodities, might do some useful service if it succeeded in solving the money problem.

In Russia, for example, the great aim is to make the country self-supporting. At the conclusion of the great five year programme the country will be almost independent of foreign imports. This year will see the Russian production of agricultural tractors exceed that of the U.S.A.

When Russia is independent of foreign imports it will be in a position to deal effectively with its internal system of distribution, and the recent attempts of Stalin to counteract the accumulation of wealth among the peasants point to the possibility of that country applying a satisfactory solution. Russian goods would be made for use by the Russian people, and not for sale. The people would have delivery of goods in accordance with the ability of Russian industry to supply those goods. In such a case Russia would quickly become the leading nation of the world.

At present the position is largely hypothetical, but what Russia could accomplish in ten years the British Empire could accomplish in ten months, without either confiscation or revolution.

13. *Empire Development and Economic Unity.*—Each Dominion and Dependency of the British Empire is compelled, through economic forces which have been artificially created, to try and become independent and, as far as possible, self-supporting. The policy of Canada, Australia and South Africa being to put down machinery and equipment and to create their own industries.

Examples of this policy can be seen in the determination of Australia to make the steel for the Sydney Bridge in Australia in spite of the fact that the contract for the construction went to an English firm and no plant was available to make the steel in Australia.

Tariff walls are erected in the Dominions to retain the work and colonial markets for themselves. The Canadian shoe manufacturers petitioned the Canadian Parliament to increase the tariff on English shoes because the importation of these deprived Canadians of work.

The necessity for work in the Dominions drives them to act independently. The result of this policy has been overproduction in raw materials and food, in addition to overproduction in manufactured goods. Mr. J. H. Thomas stated as recently as March 24th, 1930, that: "Unemployment in all parts of the world has never been higher than it is now. It is due exclusively to overproduction of the world's goods."

On the other hand it is significant that if a principle of unity could be attained between Great Britain and the Dominions, bringing about complete Empire Development and Unity, the Empire could be almost independent of the rest of the world and in a position to supply itself with all the goods needed by the British people in all parts of the world.

14. *Financial Remedies.*

(*a*) *Inflation and Deflation.*—The alternative policies of inflation and deflation may be satisfactory in regulating the price level or in regulating the amount of bank credit to be issued in relation to a particular stock of gold held by a private Central Bank. It has been proved in practice to be a complete failure to deal with industrial problems.

(*b*) *Stability.*—Another discredited policy of trying to improve matters. It is an impossible theoretical mean between inflation and deflation. It succeeds in stabilising the price level or gold proportions to currency but it fails to deal with the more vital problems of industry and unemployment.

(*c*) *Improved Credit Facilities.*—Lower bank rates, closer working arrangements between the banks and industry, would reduce the amount of money to be found by industry for these financial credits. If the interest charges on industry by the banks and the discounting of bills were entirely free, then the overhead expenses of firms would be reduced, prices would be reduced, and increased sales would be obtained. Industries would be able to supply still larger quantities of goods, and although some firms and industries might be in a position to show more profits, the total amount of over-production of the world's goods would be greater; the total number of unemployed would be slightly larger, although in some English industries the number would be reduced.

Improved credit facilities would also have the effect of enabling firms to put down more efficient plant and machinery and apply more mass production methods. Costs would be further reduced, but more unemployment would be created.

If credit was extended to purchasing goods, as by the recent example of the Bank of England to enable goods to be purchased on the hire instalment plan, it would have the immediate effect of increasing sales and reducing unemployment, as it has already done in the motor car industry of America. The logical result of this plan is inevitable. It cannot make an individual purchase more than 100 per cent. of his income, but artificially it can take in next year plus the year after purchasing power and spend them to-day. To-day's sales would be greater, but the sales for the next two years would be less by the exact amount overpurchased to-day.

All these proposals would temporarily improve the industrial position, but would inevitably make the conditions worse after a short time.

15. *Improved Credit Facilities by a System of "managed" Currency.*—Proposals for improving purchasing power in order to stimulate industries are directed towards placing industry in a better position to meet competition. They increase the ability of industry to supply goods. This road leads to more machinery, lower costs and more unemployment.

The remedy cannot be found by increasing the ability of industry to supply goods, or of placing firms in a position to make profits. If every firm in the country was financially sound and paying good dividends the problem of unemployment would not be touched. Rationalisation applied logically, especially with an improved or raised selling price, would put every industry on a profit-making basis, but the number of unemployed would be greater.

The Root Cause.

16. *Power of Industry to Supply Goods.*—The enormous productive capacity of the world's industries to supply goods is now generally accepted by all who are in direct contact with industry.

This power was strikingly demonstrated during the War. With the bulk of the young men in the industrial countries taken out of industry and put into the army for the express purpose of destroying goods by explosives, industry was reorganised on a new scale and succeeded in three years in delivering untold quantities of all kinds of expensive and difficult-to-make goods, in addition to keeping the people supplied with their usual necessaries of life. Had there been no blockade to prevent the use by industry of raw materials and no sinking of ships laden with foods, the people in each country would have been better off in spite of such wholesale destruction of goods.

17. *The War.*—The demonstration of the productive capacity of industrial nations cannot be better illustrated than by reference to facts of the late War.

The U.S.A., which had for two centuries become a debtor to this country, reversed the position in this brief war-time period. This remarkable achievement was due to the fact that the productive capacity of one or two of the U.S.A. industries were permitted to work full time and to deliver their full capacity to Great Britain. It should be observed, at this point, *that industry would have no difficulty in abolishing debts if it was permitted to supply goods to liquidate debt.*

The shoe industry supplies a typical example of the enormous power of modern industries to deliver goods when financial restrictions are removed. In spite of the fact that large numbers of men from the Leicester and Northampton boot factories went into the army, the shoe factories went ahead with delivery. Women were drafted into the works. Boots were supplied in increasing numbers to the ever expanding British Army. Boots were supplied to the Allied armies, and boots were even supplied to the American troops when they came into the War. All these boots were of a special good quality and quite additional to the normal production of the industry. The people received their normal supplies in the usual way.

The sequel is significant. The men returned from the trenches; the factories were in a much better position to turn out increased quantities of boots and shoes. What are the facts? The influence of finance prevailed; production of the shoe industry had to conform to economic necessities.

The output of the factories was restricted and limited to the demands of people who had money tokens or purchasing power to buy boots and shoes.

Trade depression, idle machines, bankrupt firms, unemployment. The men who can make boots and shoes in untold quantities are prevented from making them, and are actually walking the streets in need of the very goods they can so easily produce.

18. *The Inversion of Wealth.*—The shutting down and restrictions of industry causes unemployment and prevents the production of goods. The withering hand of economic necessity and financial influence determines the fate of modern industry and mass production machinery, but it is powerless to prevent nature from delivering its goods. The wheat harvests of the world spring up accordingly to the quantity of land prepared, seed, and the power of the sun. The sea produces its quantities of fish, whether there is a financial market or otherwise.

Examine the facts. On 15th March, 1930, Mr. Legge, Chairman of the Federal (U.S.A.) Farm Board stated that: "There was more grain stored in America at the moment than ever before in the country's history. The amount carried over to the next season is greater than the country's total exports for over 12 months. Only a serious failure of the world wheat harvest can save America from a great financial disaster. A bad crop failure or a miracle are the only alternatives."

One more example of the financial inversion of wealth: The (British) Exporters' and Fish Curers' Committee dealing with the glut of herrings placed a stringent ban on curing for the time being.

The sequel to this ban was strikingly illustrated at the little port of Buckie on the Moray Firth, when virtually the whole catch of seven drifters was re-consigned to the sea. What that means is that nearly 200 tons of valuable food was destroyed, and that at a moment when far too many of the inhabitants in our distressed industrial areas are lacking in almost the bare necessaries of life. (Quotation from a leading article in a Conservative newspaper.)

The production of fish manure on the Humber is another example of the financial inversion of wealth.

19. Perhaps the most tragic example of the inversion of wealth is to be found in our unemployed. Here are potential workers, Englishmen qualified by education, apprenticeship, and experience, to turn out wealth in almost unlimited quantities for the satisfaction of all human needs and luxuries.

There is no shortage of raw materials; indeed, there is the authority of the Lord Privy Seal that we are suffering from the over-production of raw materials.

Machinery and equipment which the world has never seen before are now available. Standing idle in most cases. Engineering developments have outstripped economics and finance. Machinery is available for any manufacturing purpose and can be improved beyond recognition if the engineers were permitted to develop their equipment freed from the restricting influence of economics.

20. In the field of science progress is even more full of promise. Energy in the form of electricity could be applied far more extensively for the service of industry and for the service of the people than it is at present. The pall of smoke over our cities and works could be abolished if electricity was used for the service of man and not as a commodity for sale.

Invention and research are restricted and limited. The application of an invention is not determined by its usefulness or its ability to reduce labour, but purely by its ability to create more profit. In the workshop it is now an axiom, that an invention is useless unless it will not only be a great improvement, but that it will also reduce the cost of production and be cheaper. An improvement in quality is useless to-day, if it costs more to produce. Sales are more and more governed by cheapness and price.

21. *Labour Saving and Leisure.*—The introduction of machinery and labour-saving devices has not reduced the hours of labour. A mass production machine to increase the output of the lathe in an engineering works does not reduce the hours of the turners. It may enable the work to be performed in one tenth of the time, but the men must work the full time.

The production of steel tyres for railway wheels is increased fifty times by the adoption of new equipment. The men have to work the same time. There is not fifty times as much work to do. There is no system in our economics to increase the amount of leisure in direct proportion to the increase in the productive capacity of the country.

22. *Purchasing Power and Demand.*—Just as the inexorable forces of economic necessity reduce the productive capacity of industry, so do the same forces reduce the delivery of goods to the people.

There is no relation whatever between human wants or needs and purchasing power, neither is there any attempt made to measure the productive capacity of industry in terms of money or purchasing power.

Census of Production have been taken in the past but they only measure the exchange value of industry because the output of industry is limited to sales.

Palliatives are put forward to increase purchasing power among the needy. These social services are provided for out of taxation, so that what is done with one hand is undone with the other. Taxation in any form reduces the ability of the taxed to buy goods. To attempt to increase purchasing power through taxation is like feeding the dog on his own tail.

Enlightened leaders of industry ask for an adjustment of the world's supply of goods to world demand. No attempt however is made to equate productive capacity with human needs.

There is a significant difference between productive capacity and output of industry. Productive capacity means the ability of industry to deliver goods working full time irrespective of orders. It is a measurement of rate of delivery and not quantity. Expressed in quantity it must be accompanied by the time required for producing that quantity. Output of industry is limited by orders and the output of any firm may only be a small proportion of their capacity for production.

The productive capacity of industry should be the only limiting factor in the supply of goods to the people and the relationship between the two should be made without reference to money. Money should be made to function as the medium to enable the relationship to work in actual practice.

23. *Price Level.*—A determining factor in the delivery of goods to the people and a restricting influence on purchasing power is the price level.

The larger the selling price, then the less will be the quantity of goods purchased for the same amount of money.

When the price level is reduced by means of deflation it is frequently assumed that the purchasing power of the people has been increased. That would be the case if all the other factors remained constant. Lower wages and salaries accompany a lower price level.

The factors of selling price, and wages, could be regulated to secure delivery of the maximum output of industry or the productive capacity of industry. If the price level was reduced considerably and wages were increased considerably, a larger quantity of goods would be delivered and conversely, if wages were further reduced and the price level was increased, then the quality of goods delivered would be very much diminished.

24. *Reason Goods are Unsold.*—The price of any article is the sum total of all the costs of production including overhead charges and the manufacturer's profit.

If the total amount of money making up these costs and profits and appearing as selling price in any given time was entirely spent, then the total amount of goods, neither more nor less, would be purchased. That is, the same amount of money which appeared on the one side as costs of production would be spent on the other side to buy back the same amount of goods at the selling price.

If a larger amount of money was spent, then there would be a demand for a larger amount of goods, and either a larger price would be asked for the same goods, or else some people would have to go without delivery.

If a less amount of money was spent during this given time, then some goods would remain unsold, unless the price was reduced below manufacturing costs. The reduction of price below cost is not possible if a firm is to continue in business.

Now it can be proved that the total amount of money which goes into prices as manufacturing costs is not spent during any given period of time. To extend the period of time does not affect the principle nor invalidate the reason.

Deductions are constantly made in every period of time for the following purposes in all successful businesses:—

(*a*) Money saved by individuals in receipt of wages or salaries. The money so saved may be for any purpose; the fact remains it is not spent and cannot buy goods.

(*b*) Amounts placed by firms to reserve. The amount varies according to the prosperity of firms.

(*c*) Amounts used for writing off certain accounts, such as plant and buildings.

(*d*) Amounts allocated to depreciation and not spent on the machinery or plant.

(*e*) Accumulated reserves of insurance companies.

The validity of these deductions is not affected by the quantity of money allocated to these various purposes.

The principle of making the selling price include all costs and not having the money in the total costs available as spending power prevents the goods made from being purchased.

It accounts for the economic necessity for the U.S.A., a country almost self contained and independent of foreign supplies, to find export markets and so to try and make up the difference between the purchasing power actually functioning in its home market as spending power, and the total selling prices of the goods offered for sale.

25. *The Purpose of Industry.*—The firms engaged in industry as the means to make profits and enable the people employed therein to earn their living.

The people regard industry or the professions as their particular means of livelihood. Employers regard their works as their means of existence and the possibility of making a career.

Politicians probably regard industry as the source of taxation. Economists attempt to make a science of the various factors in industry such as wages, markets, credit and development.

It has been shown that the system of price fixing prevents the total amount of goods from being sold in any given time. This could perhaps more clearly be seen if the world output was taken as an example. The total selling prices in the world exceed the total available spending power in a given time by the amounts saved or allocated by industry for certain purposes. The less cannot therefore buy the whole.

In a similar manner it can be proved that the profit making principle will not function on a world scale. If ten men were working in an enclosed colony, each producing 10 per cent. of the total requirements, they could not make any profit out of themselves. Their profits if included in price would all cancel out. It is not possible for all people in the world to make a profit out of themselves.

So long as the world is not an economic unit it is possible for some parts to exploit others, but the principle is unsound and the condition of British industry is such that the question of examining a more satisfactory principle is not only necessary but extremely urgent.

The United States can make all the goods it could possibly need, but under the present economic system it cannot get delivery of them. It can make them but cannot have them. It is compelled to seek an ever increasing export market to satisfy the increasing productive capacity of its industries. The industries of the U.S.A. do not exist for the production of goods for the people of the U.S.A.

Precisely the same principle applies to the British Empire. As a whole economic unit it would be self-supporting. The economic system forces each Dominion and the Mother Country to act independently, to seek orders and work and make profits. The British Empire could make all the goods needed by all the British peoples, but it could not have delivery.

If an unlimited market could be found to dump the goods of the U.S.A. or the British Empire or any industrial nation, then such industrial countries could function by making goods and sending them away for someone else to use. The economic principle upon which industry functions to-day is unsound, unjust and hopelessly out of date.

26. *The Road to Prosperity.*—The first essential condition towards reaching a solution of the industrial problem is to understand the diagnosis of the trouble. When that is done the enormous productive capacity of the industries of this country will be appreciated.

The central key must therefore be capacity to produce goods. That capacity can be measured in quantities per week, or per day or per annum.

From this position the problem can be tackled with the certain knowledge that there will be no physical difficulty on the part of industry to deliver goods at whatever rate is determined.

The total demands of the people can also be measured in terms of quantities of goods per day, or per week or per annum. The problem then reduces itself to one of a just distribution.

In the case of most commodities no difficulty would be found in securing a satisfactory system of distribution, once it was realised that unlimited quantities were available.

In the case of the supplies of boots and shoes for the British Empire. The factories of Northampton and Leicester would not have the slightest difficulty in supplying boots and shoes for the whole of the Empire requirements, giving everyone as many pairs as they desired. When that work was done the shoemakers could spend the remainder of their time in leisure knowing full well that the purpose of supplying boots and shoes had been achieved. With the present state of efficiency of the industry, and with the assistance of Canadian factories, that leisure time would amount to at least a month per annum, with everyone using shoes extravagantly.

The amount of leisure time would automatically increase with every fresh improvement in machinery and efficiency.

A similar position would be found with all the basic industries, cotton, wool, steel, foods and most other household commodities.

The purpose of industry would be a true one, namely, that of supplying goods to meet the needs of the people. The incentive for people to produce goods would be the need for other goods. Every worker or every worker willing to work would receive goods for all his requirements.

Taxation and debts would be liquidated by industry in the delivery of goods to creditors. Just as the U.S.A. cleared off the accumulated debt to this country of two centuries in the war years, so the industries of this country would clear off our national debts in a similar short period.

27. *Obstacles.*—The principal obstacle to bringing about such a desirable solution is the out-of-date conception of wealth and money.

A text book on Economics (Henry Clay) defining wealth states that "Real wealth consists of what money will buy . . . . anything that satisfies directly or indirectly human wants, and is not unlimited in quantity." (p. 228.)

This definition illustrates in a typical manner the absurd position which money now obtains among economists and financial people. The definition of real wealth is the simple one of the possession of goods and services. The question of unlimited quantity merely shows how hopelessly out of touch economists are with facts.

Boots and shoes can be supplied by the shoe industry in unlimited quantities; cotton goods can be supplied in unlimited quantities. Steel can be supplied in the same way. The use of the word unlimited is not here implied in the strictly mathematical sense, but in the sense that the quantities would be unlimited for demand among the people. If a man had the opportunity of purchasing 1,000 pairs of boots per annum, as many now have, the quantity, so far as his wearing capacity is concerned, would be unlimited.

Money is used as a commodity and as a means of exchange, but above all it is used as a restricting influence on industry. Industry cannot deliver goods unless there is money to pay for the goods. *The measurement of money has not the slightest relationship to the capacity of industrial production.*

The measurement of money is supposed to be made on a basis of the metal gold. Gold is a metal possessing certain physical properties well known to metallurgy; no scientific man has yet discovered that gold possesses any latent powers to stabilise values or to regulate output of goods. The use of the metal was not satisfactory in the 19th century and is as completely out of date as bows and arrows.

It would be possible to use money to function in such a manner that it would release industry from its present restrictions and permit it to deliver goods. Money is a useful medium of exchange if not abused or misused. It is universally accepted, but it is not the only method by which distribution of the products of industry could be attained.

The Economic Freedom League does not go so far as to put forward any particular scheme for attaining the proper purpose of industry. The members believe that there is at the present time no party or other means of putting a scheme into operation. The League therefore contents itself with making what it believes to be an accurate diagnosis of the problem, stating clearly what is wrong with the present system and what direction the remedy is to be found.

If the Committee on Finance and Industry would like the League to submit a complete scheme showing the successive stages along which the country could attain the objects of making the productive capacity of industry available for the people, then the League would be pleased to put such a plan forward.

5096. *Chairman*: Gentlemen, this afternoon Mr. Arthur Kitson and Mr. W. H. Bolton are good enough to attend, representing the Economic Freedom League. I think, Mr. Kitson, you are the President of that League?—(*Mr. Kitson*): I am, Sir.

5097. And, Mr. Bolton, you are the Secretary of it?—(*Mr. Bolton*): That is right, Sir.

5098. I have looked up the constitution of your League. I see that you were founded in January, 1926?—(*Mr. Kitson*): That is so.

5099. And that the aims of the League are—it might be well to have them down on the note—" to supersede the present private money monopoly by the restoration to the Crown, as Trustee of the Nation, of the control of money " and " to enable all members of the community to claim goods and services up to the real limit of the productive capacity of industry." May I take it that those two sentences really present in summarised form the objects of the League?—Very largely. Of course, the real object of the League was to try and educate the public on the subject of finance and its relation to industry.

5100. Will you treat us this afternoon as a branch of the public, and educate us accordingly?—Certainly.

5101. Perhaps you might tell us this: what has been your own special study of the matter; what has brought you to the consideration of this matter especially? May I ask what is your profession?—I am an engineer by profession. I lived in America for a good many years; I went there as a youth and resided there for about 20 years. My attention was first called to the subject of finance through the panic of 1893. I was then in business in Philadelphia. Business had been prosperous up to the time of the election of Grover Cleveland as President of the United States in 1892. Cleveland was elected that year on what was known as a " Free Trade " or low tariff platform; the political fight there had been between the Democratic and Republican Parties representing a tariff for revenue only and High Protection respectively. Please excuse my going into these details, but I want you to understand how I first came to study this question.

5102. Yes?—Cleveland was elected professedly for the purpose of repealing the McKinley Act, which had been passed under the Republican administration of General Harrison. The first thing Cleveland did after his election was to summon a meeting of Congress, not for the purpose of repealing the McKinley Bill, for which he was elected, but to repeal the Sherman Silver Bill, a subject which had not been a special election issue. This bill had also been passed under the former Administration for the object of increasing the currency by the issue of 6,000,000 dollars of Treasury notes against an equivalent amount of silver. The Southern and Western States to whom Cleveland owed his election were in favour of bimetallism and therefore refused to repeal this Act. Then the bankers of New York called a meeting and they said, " We shall have to give the country an object lesson; we shall have to frighten the people in order to get the repeal of the Sherman Bill." I have a copy of one of the letters that was sent to all the National Banks calling upon them to curtail credit and to bring about a financial crisis, and then to lay the blame on the Silver Coinage measure. Within a few weeks of the issue of this letter, we had the most terrible panic that had been known up to that date and several millions of people were thrown out of employment. Thousands of merchants and manufacturers were made bankrupt, and we had a period of industrial depression far worse than we are having here now. We manufacturers could not get money even to pay our weekly wages. I had at that time about 30 thousand dollars on deposit at the Chestnut Street National Bank in Philadelphia and the bank officials refused to honour cheques in currency. We were paid in clearing house certificates. I then began studying this question in common with many others, and I came to the conclusion that there was something radically wrong with a system of finance which enabled a few bankers to get together and bring about this terrible crisis in industry. The crisis lasted for some years and it was during that period that Mr. Bryan—the well-known bimetallist—came into public notoriety. I spent two or three years studying this subject of finance and its relation to trade and industry. I read upwards of 500 volumes on the subject and I then wrote a treatise on money. This book was entitled " A Scientific Solution of the Money Question " and was published in Boston, U.S.A. It was used as a text book in two or three of the Colleges in America, and in consequence of their endorsement of the views therein expressed several economic Professors lost their jobs because the financial supporters of those institutions said, " This is financial heresy, and we are not going to support institutions that teach such doctrines." One of the Professors was Professor Ross of the Leyland-Stanford University in California, whose name is well known. That was the beginning of my education on this subject. It was forced upon me by actual experience.

I met Mr. Bryan the nominee of the Democratic Party for the Presidency in 1896. Mr. Bryan came from Nebraska to Philadelphia to see me; we had two or three evenings' conversation. I put the question to him, " Mr. Bryan, do you think bimetallism is going to solve all our economic problems? He said, ' No, certainly not. Metallism is merely a symbol; the real fight is for the control of the national credit. If McKinley (the nominee of the Republican Party) wins, this country will be governed by the most unscrupulous set of speculators the world has ever known. If I win, the Government will control its own credit.' So I joined Mr. Bryan. I spoke for him at hundreds of meetings. In fact I stumped the State of Pennsylvania on his behalf and we had a very interesting time together. Sometime later I became associated with one of the largest financial syndicates in America. I had practical experience in the operations of leading financiers—I saw various things happen. I witnessed the power of finance, the terrible power of finance controlled by a few men. For instance, I was connected with what was known as the Traction Company. The Traction Company controlled the whole of the surface roads in New York, Chicago, Philadelphia, San Francisco and other cities. There was one road however, that was not controlled by this Company; that was the Second Avenue of New York; it was controlled by a certain Englishman named Sharpe. A member of my group said, ' I am going to get control of that road.' I asked him how. He said, ' leave it to me ' and later he explained how he managed to secure the control. At that time they were converting these roads from the horse-car system to the electric system. This man went to the owner of the Second Avenue Road and said, ' I want to buy your road, what will you take for it '? The owner said ' It is not for sale.' He said, ' that does not matter, I want it.' ' Well,' replied the owner, ' if you want the shares, buy them; they are quoted on the exchange.' They were quoted, I think, at about 200 dollars. He made him an offer of 100 dollars. He said ' Will you take it '? ' No,' was the reply. ' Then,' said the financier, ' you will have to take less.' That man went to the various National Banks and said, ' Call in Sharpe's loans and do not let him have any more money,' and this group of financiers were powerful enough to get the banking officials to obey them. The result was that this man's loans were called in, the shares were thrown on the market and were bought in for 30, 40, 50 dollars a share. That was another illustration of the use of finance in the hands of a few men. It opened my eyes to the whole question, and I have been rather rabid on this subject ever since. I have seen the same thing happen in various other countries. You have had an illustration of it in this country in what has happened since the War. You have a group of men who decide among themselves that they are going to deflate the currency. They decide what the amount of the currency in the country shall be. They decide how many of these 'goods tickets' shall be used, and that is how the business is controlled. I once heard Senator Chauncey Depew in Washington make a statement to this effect. He said, 'There are twenty men in this country who can stop every wheel on every railroad from moving, who can close every mine, lay up every steamship, shut up every factory, close every telegraph office, in fact, they can paralyse the whole of the industries of the United States. They can do this merely by their control of credit.' He added 'that is a power that no single body of men should be allowed to possess in this world'."

5103. Let us open our discussion at that point. Your suggestion is that under the existing system the control of finance is in the hands of a limited number of people in this country?—Yes, Sir.

5104. In the first instance, in the hands of the Bank of England, and in the second instance, in the hands of the commercial banks?—Yes.

5105. What is your alternative—the financial system must be administered by somebody?—Yes. Why should not the Government administer it or, rather, why should not the State control its own banks as it controls its own physical laboratory?

5106. Just let us take this point up. This is an abstraction; the State, the Government and so on, after all, mean human beings in the end, do they not?—That is true.

5107. Would you prefer that the control of finance should be transferred to Downing Street?—No, Sir, certainly not.

5108. Or to Parliament?—No. There is no reason why the executive, the bank officials, should not be the same as they are to-day, but let those officials work for the State instead of working for the bank shareholders. That would make a vast difference in the results.

5109. Do you mean that it is not the organisation that you object to, but the motive of private profit? —Precisely; it is the motive. What does the banker do? If I were a banker I should probably do what they do to-day. They are controlled by shareholders. They must work to please their shareholders. They must make profits. That is the immediate aim; the secondary aim may be, possibly, the welfare of trade and industry. On the other hand, it may not be. Supposing these interests are opposed. Supposing the bankers find it pays them better to send credit to Germany or to America than to lend it to British traders, what then? It may be a good thing for the bankers, but it is not a good thing for British industry. You have an illustration in the fact that since this deflation policy was started, the banks have made greater profits than they have ever made before in the history of the country, at the very time when industry has been hardest pressed, and I say that any banking system, or any financial system, that can flourish when trade is depressed, is not a safe system for the country. If the prosperity of the banks depended on the prosperity of trade and industry, you would find the whole policy of currency deflation reversed. You would not have had the deflation policy. Supposing that the assets of the bankers were deflated with the currency, as were the assets of the manufacturers? I was one of the victims, by the way, of this ruinous policy which cost me between £100,000 and £200,000. For instance, I bought sheet steel after the War when prices were high at £60 a ton in order to manufacture certain goods. At that time orders were pouring in on me. Within a few months I was forced to sell this sheet steel at £16 a ton! If the bankers' assets had gone down in the same way there would not have been this deflation policy. Their main object is to secure profits for the banks. So long as the banks prosper, well, they do not actually say, "to hell with industry," but certainly their actions look as though they have little regard for the welfare of industry!

5110. So far as the Bank of England is concerned the profits of the Issue Department go to the Government; the Bank does not take the profits of that Department?—No, Sir, but there is this point. Bankers live by loaning credit. The consequence is this, the less legal tender there is, the more demand there is for Bank credit. If legal tender were as plentiful as some of us think it ought to be, there would be less demand for bank credit, and, consequently, bankers would not make the same profits.

5111. Just take the conditions under which the financial system operates at the present moment. Would you have been sure that under a different system, such as you contemplate, the same policy might not have been adopted as was adopted at the time of the deflation?—Well, I think there is this point to be borne in mind. You see, the final objects of all enterprise have a lot to do with its conduct. If I have to make profits for shareholders, I have got to use every means in my power for obtaining them. If, on the contrary, I am running an industry, I will not say as a philanthropic institution, but for the benefit of the country, my conduct will be quite different.

5112. Would you suggest that the return to the gold standard in this country had as its motive the private profit of shareholders?—I think there is no doubt about that. I will put it another way. I think if the bankers had known—when I speak of bankers I mean the gentlemen who signed this Cunliffe Currency Report——

5113. We have the advantage of the presence of one or two of them here?—I know; we happen to have one of our ablest bankers here.

5114. Do not let that cramp your style. I am certain that if Mr. McKenna or his predecessor, the late Sir Edward Holden, had had the control, these things would not have happened, we should not be in the mess that we are in to-day. I do think there was a temptation, there has been in every country a temptation, on the part of bankers to revert to a standard which puts money at a higher value than it was during the crisis. You had it after the Napoleonic Wars; you had it after the American Civil War; you have had it after every great crisis. And always the moneylenders have benefited. Having got through the War crisis, they say "let us return to the good old system." During these crises you issue your War bonds. These bonds are purchased with the cheap inflated currency. The bulk of the bonds that were issued during the late War were not exchanged for golden sovereigns nor twenty shilling pounds; they were purchased for what we were afterwards told were eight shilling and ten shilling pounds; and yet the very men who bought those bonds advise the Government to compel the taxpayers to redeem those bonds for twice the money they paid for them, and pay the interest in money of twice the value of that borrowed. I say that was dishonest, just as dishonest as if the Government had done what they did in Germany, inflated the currency and then paid the bankers off in worthless currency. Both inflation and deflation are dishonest and ought not to be practised. Many methods of avoiding these evils have been suggested. Mr. Keynes here has suggested a method which, if he will pardon me, I suggested back in 1894. That was to have a managed currency so as to adhere to a fixed index number as nearly as possible. That is to say, you issue and withdraw currency in such a way as to preserve the index number at a certain level. Had debts been payable according to an index number during the War, as I once proposed to Mr. Lloyd George during that War-time period, there would have been little cause for complaint.

5115. *Mr. Keynes*: Your argument is that we should have far less trouble if the volume of credit was greater?—If the volume of *currency* was greater. I am not in favour of so much credit because of the interest charges

5116. In your memorandum you seem to give two reasons why the amount has been curtailed. The first is that we belong to an international system. The second is that banking is in private hands?—Yes.

5117. Assuming that we remain part of an international system as at present, would it make any difference if the Government were to administer the credit system instead of private people?—I do not think so.

5118. Therefore, the essence of your argument is not so much that banking is in private hands as that we are part of an international system, which prevents us from increasing adequately our supply of currency?—Precisely. By going on to what we call the gold basis which, after all, is largely fiction in my judgment, where you have so much credit, we are putting ourselves under the control of those who can control gold. I mentioned it in my criticism of the first Report of the Cunliffe Currency Committee. I gave a long quotation from Sir Edward Holden's address before the Liverpool Bankers' Association, in which he went into this question and showed how gold controlled the trade of the world so long as the gold standard and gold basis were used.

5119. Your grievance against the banking system, as distinct from the currency system, is a secondary one?—Yes; but, of course, I contend that the use of gold is an absurdity. I think it is a relic of barbarism; it is a superstition. It is not essential at all. All that gold does is to restrict the volume of currency. It does not enter into it at all. We are not using gold to-day. The Bank of England has been allowed to issue promissory notes which are not redeemable. I consider this to be one of the biggest frauds on the public ever known. And yet those notes are functioning just the same as golden sovereigns.

5120. If we were to go off the gold standard and increase our currency by a given percentage, say, 10 per cent. or 20 per cent.—having once done that would your system operate differently from the present one; would you want to go on increasing the currency indefinitely?—Undoubtedly you have to increase your volume of currency as your volume of trade increases and as your population increases.

5121. You would not wish to increase the currency more than in proportion to the growth of trade, say 2 per cent. per annum?—Certainly, it depends on the needs of trade. Supposing a monopoly of issuing transportation tickets were granted to some Syndicate and they were to limit the number of tickets arbitrarily to an insufficiency for the public needs. Would not this render transportation chaotic? Railway officials do not say the number of tickets issued this year is so much and we will increase this by 2 per cent. for next year. No. They consider what is likely to be the public demand for transportation; and I say the same policy should be pursued regarding currency supplies. If business is to increase you must increase the facilities for trade, otherwise you are likely to strangle it.

5122. Let us suppose the output of the country increased by 5 per cent. per annum, would you wish to do more than increase the currency by 5 per cent. per annum?—Yes, because I consider that it is the issue of the currency that *induces* trade. If you were to issue more currency to-day, your trade would go up by leaps and bounds as it did with the discovery of gold in California and Australia in 1850 and after. What was it that saved us at the end of the hungry Forties? Mr. Disraeli once made a speech on this question—I have it at home—in which he said this country was saved from ruin by two accidents, namely, the discovery of gold in California and the discovery of gold in Australia. Well, the effects were nothing more than reversing the policy of Sir Robert Peel by issuing more currency. Prices began to advance a little and the demand for goods induced business. Increasing currency leads to an increase in business. Here the public are waiting for goods, they are ready to buy the goods but have not got the money. They are ready and willing to give their services—which is all they have to offer. How is a revival in business to start except by an increase in the effective demand for goods? To expect business to revive first and to promise an increase of credit later is like promising a stimulant to a person who is fainting and saying, "Get up and walk and you shall have the stimulant at the end of the journey!" You must give him the stimulant before he can revive.

5123. Has not money a revolving effect; would you not have to go on giving them more and more millions?—As long as wealth increases in proportion, where is the harm?

5124. If we gave the stimulant of 5 per cent. more currency and the country produced 10 per cent. more output, we should then have to give 5 per cent. more currency in order to enable the country to make good the 10 per cent. of output?—Yes.

5125. You then say you should raise it to 15 per cent. and that such increases should go on without limit?—Certainly, as long as wealth goes on increasing.

5126. How much would you expect wealth to increase?—I cannot tell; nobody can tell. During the war we exceeded all calculations and expectations in the output of goods.

5127. What you want is an initial stimulant, and after the initial stimulant you would favour the increase of the currency *pari passu* with production?—Certainly, as the needs increased. Why not?

5128. I am trying to get your view clearly?—Undoubtedly. Mind you, you have got to have some regard to prices. I know I am going to be met with the old bogey cry of price inflation, which is misunderstood by the majority of people and is misinterpreted, I am sorry to say, by the economists themselves, but you can expand currency without inflating prices. In fact, expansion of currency will very often bring about a reduction in prices by reason of the fact that you increase supplies, and it is far cheaper per unit to produce by mass production than to produce smaller quantities. Therefore, an increase in currency should lead in many cases to a reduction in prices. No manufacturer goes and puts up prices the moment the orders begin to come in; you put up prices only when you cannot fill your orders, when your orders are coming in in excess of your facilities for producing. Then manufacturers say, "We cannot fill those orders, we will put up prices and make more profit," but they do not do it until then.

5129. I am trying to find out how far you differ from the views which many people hold. Many people would agree that our return to the gold standard is at the present moment causing us to have less currency than would be required in a normal state of equilibrium with full employment and a high wage level, and that in time to come as the output of the country increased the currency should be increased *pari passu* with that. Although this view is very widely held, I gather from your memorandum that is not the end of the story?—No; my point is this, that the currency should be issued in advance to *induce* production. I had some correspondence with Mr. Lloyd George on this subject when he was bringing in the "Dole Bill," and I urged him then to issue fresh Treasury notes: "Why take from taxation the amount you have got to pay these unemployed? Why not issue further Treasury notes to meet the needs of these unemployed?" Of course the Treasury officials were up in arms against such a proposal. They said it would be rank inflation. I said, "No. What will happen is this. You would issue these notes to the unemployed, you would not then tax industry by taking it out of production. These notes would be taken by the unemployed to the shops and stores; they would buy goods with them; immediately the retailers finding an increased demand for their goods backed by fresh purchasing power would begin to order from the wholesalers. The wholesalers would order more from the manufacturers, the manufacturers finding orders are coming in, would say, 'let us get busy' and they would put the unemployed to work! That would be the consequence of increasing the purchasing power of the people."

5130. You mean, prices will not rise in that process?—If that suggestion had been put in practice we would not have been paying the amount in doles that we are to-day.

5131. Would prices have risen?—They would have risen a little, but I doubt if they would have risen to the extent they did immediately after the War.

5132. After everybody was employed would you repeat this process?—It would have to be repeated from time to time for this reason. You are reducing the volume of currency every year by paying interest charges on loans. As an illustration let us regard the currency in the same way as the water in a canal. As long as you have a certain level of water you can float your vessels of various drafts, but supposing you allow the water to be continually tapped off for other purposes, the water will gradually go down and the heavier vessels will not float. Hence you must have some method of continuous supply to make good the quantity taken out. The same is true of the currency. Taxation and interest charges are reducing the supplies available for trade, and hence must be replaced by fresh supplies if trade depression is to be avoided.

5133. Does it not come back into industry; banks pay dividends to their shareholders?—Yes. Still, a certain amount goes to reserves. Dividends paid may not necessarily be put into industry; they may be put somewhere else. They may put it into capital investment.

5134. *Professor Gregory*: And what happens to that?—The capital investment?

5135. Yes.—If it goes into capital investment it certainly does not help unemployment very much.

5136. If you are making steel plates as part of the capital equipment of the country and the work is being financed out of the savings of, say, Mr. Keynes and myself, would not that stimulate production?—Up to a point; but after that what are you to do when you have got those steel plates? Does Mr. Keynes mean it is going to increase capital production later?

5137. *Mr. Keynes*: You think when anybody spends a thousand pounds on building a house you must then increase the currency by a thousand pounds?—No. I do not say that. I say if you have spent your thousand pounds in building a house you have got your wealth in the form of a house to show for it. Following that along, take the case of municipalities. The Municipalities are wanting to do certain things, to build houses, to destroy slums; supposing the municipalities were allowed to issue their currency and to build those houses with that currency, on the plan of the Guernsey Market Scheme (which is a favourite illustration) you would have the wealth to show for it after the currency had been issued. Why should you not go on issuing it as long as you create the wealth as an equivalent?

5138. You mean, if we build one hundred million pounds' worth of houses a year we should increase our currency one hundred million pounds a year, so that at the end of 20 years we should have increased it by two thousand million pounds?—This money would have to be redeemed. I do not say it would always remain in circulation; you have built the houses and have that much wealth to show. The money would have to be repaid and would go back to the Treasury.

5139. It would be repaid after a period of years?—Undoubtedly.

5140. So you would have an amount of currency outstanding at any time equal to the fixed capital of the country?—No, not exactly. The notes would be running out and would be re-issued as fresh capital was required, or destroyed as the case might be. When you had created the wealth, the currency used in creating it would be put on one side.

5141. If you take the life of a house at 50 years and the money was repaid after those 50 years, you would have outstanding the cost of the houses you would have to rebuild. Houses would not be different from other fixed capital. That would also apply to other fixed capital?—It would undoubtedly also apply to whatever other institution you wanted to create. What has happened to the currency? The currency is used for purchasing all classes of goods; the needs of the people are continued and increasing. They must have the money with which to make their demand effective, and with the increased demand you increase production. In time if you get to a point where you cannot increase production, the increase of money is an absurdity and amounts to pure inflation, but we have never reached that point yet. We have never begun to create the wealth in this country that we could create if we only had the financial facilities for creating it. So long as wealth increases as the currency is increased, I cannot see where the "inflation" comes in.

5142. *Professor Gregory*: Not even if prices were rising?—They would not necessarily. It is one of the obsessions of the economists that expansion of currency *automatically* raises prices. It does not. It does nothing of the sort. Prices are affected by individuals and firms, not by money. Prices advance by individuals getting together and saying "Orders are coming in; we are doing very well; we can raise prices"; *they* raise them, but the currency does not.

5143. *Mr. Brand*: In the German case prices did rise and they only fell when they made their issue of bonds?—The Germans did a very clever thing although a dishonest thing. They said, "We have a big internal debt" and they created a worthless currency for the purpose of getting rid of the internal debt.

5144. I am not on that particular point. I am on the point of prices. Undoubtedly in Germany prices did rise?—Yes.

5145. They never came to the end of their productive capacity. As I understand you, prices should not have risen at all?—No; I do not say they should not have risen at all, but there is no necessity for prices to go up if currency is issued for trade needs only.

5146. Can you explain why they did rise?—Undoubtedly; by the suddenness of the increase of money and the uncertainty of its value. In a few months it doubled, trebled and quadrupled. I have a 30 quadrillion mark note in my possession.

5147. At the beginning prices began to rise?—It started from that point. They were determined to get rid of their internal debt.

5148. I am only on the point whether prices rose or not and, if so, why did they rise?—On account of the policy of the Government, by creation of money for political purposes, not for trade purposes.

5149. When you create money, if you state that it is for political purposes and not for trade purposes, then it has a different effect?—No, everybody knows what that means. When traders are asking for an increase of credit for carrying on industry and increasing production, that is one thing; when the Treasury of a nation begins to print notes for the sake of meeting its political obligations, that is a different thing.

5150. But why, if the productive capacity of the country is not being deflated?—The productive capacity of Germany had not time to deflate.

5151. You think it was purely because they created credit too quickly?—Undoubtedly; and for political purposes, as it was in Russia. Lenin said, "I am going to destroy the private trader by making the rouble valueless!"

5152. If they had created that amount of credit in double the time and said it was not for political purposes, it would have had no effect on trade?—

It does not matter what they say in that respect. We know that if the Bank of England began to print notes as they did, and began issuing them haphazard, or if they began to print notes to pay off the National Debt in that way, it would affect prices in a similar manner.

5153. Take the French position?—The French position is ten times sounder than ours.

5154. The French creation of additional currency happened to be connected with the rise in prices?—I think you will find it the other way. I think it is Tooke who, in his "History of Prices,"—it is years since I read it—uses some expression to this effect. I have forgotten the exact words. What he means is, that nearly always the increase of currency has followed the increase of prices, that it was the increase of prices that necessitated the increase of currency. That was so in many cases.

5155. You think that might have been the case with Germany?—The German Government were trying to get rid of their internal debt.

5156. *Professor Gregory*: Under your scheme, do you want the increase of prices to follow the increase of currency, or the increase of prices to precede the increase of currency?—No; I admit that ultimately prices might have to be controlled. No doubt some day a Government will arise that will take the matter in hand and will say, "Prices come under our control and we are going to see that they are not manipulated in a haphazard way."

5157. I think I understand your scheme in general. What you want is an elastic currency that is intended, partly, to act as a stimulant to further production and, partly, to maintain the level of prices constant?—Yes.

5158. How far is the memorandum of Mr. Bolton representative of your views?—Well, I agree with Mr. Bolton in the main. You will have to put your questions to him.

5159. I ask you that for a definite reason. Does it represent your views broadly?—Well, I will not say it represents my views in every detail. I am sorry to say I have not had time to read all his report. I have been abroad and was not able to go over all these details myself; I have only recently returned.

5160. Then I will have to ask Mr. Bolton whether he agrees with you, because I notice that in paragraph 14 of Mr. Bolton's memorandum stability is described as "another discredited policy of trying to improve matters." I understood your argument was that your scheme would not in fact involve a rise in prices?—I say that it is possible to expand the currency and benefit industry without any serious advance in prices.

5161. But you would not mind if prices did rise?—No, I say that advancing prices are often indicative of prosperity, and there are far worse evils than a high-price scale. Look at America. It is infinitely better to have the prosperity that America has had than the chronic state of industrial depression that we have.

5162. I should say that a high-price level is not the question in dispute. What I am asking you is whether you would be prepared to adhere to your scheme even if it involved a continuously rising price level?—I do not say continuously, but I say that an advance in the price scale is not such a very serious thing. You would not advance the price scale to any very great extent until you had got to the point where the demand for goods was in excess of the supplies.

5163. But under your scheme you would continuously provide for an additional demand and continuously provide for an additional currency?—Not at all. It does not follow that as you increase your volume of currency people are going immediately to rush out and buy goods with it. That is another of the fallacies that you economists have, that because you issue currency to people they are all going at one time to the market and ask for so many pounds of meat, butter and bread.

5164. *Mr. Tulloch*: They did in Germany; when the workman received his wages he rushed to buy goods lest the currency should depreciate before he had bought them?—That is true, because the currency had been so varied in value that nobody knew what was its value from day to day.

5165. *Mr. Brand*: What reduced it in value?—The excessive issues, and also the knowledge that the Government or whoever had charge of it was likely to go on increasing the amount of new issues.

5166. Why was it excessive if the limit of productive capacity of Germany had not been reached?—Because it was not issued in accordance with the demands of trade.

5167. *Chairman*: That touches one of the things we should like to know—how do you gauge the demand of trade?—The demand for loans on bankers, for example, is a good indication.

5168. You cannot force currency on the people, you know; there must be a demand. It is no use printing notes if people do not want them. How would you gauge the requirements of production?—I should gauge it by the number of the unemployed and by the out-put of production and also by the demands of the manufacturers, and producers generally.

5169. Let us assume for the moment that your policy commended itself and that additional credit were created in this country and additional currency were provided. What would be the immediate practical consequence to industry in this country?—The first thing would be an increased demand, which would immediately react on production.

5170. Let us diagnose that a little more closely. It is announced publicly that the volume of currency will be increased by 10 per cent. on the first of next month. What effect is that to have on you and other manufacturers; what do you do in consequence of that?—I should get ready for that by putting on more workmen. I should say, "This means there is going to be a bigger demand for our goods; there is bound to be a bigger demand, therefore, let us see how many men we can put on and get our machines ready to start up, because that is what it is bound to mean, an increase of orders. Let us get ready for it."

5171. Why is it bound to mean an increase of orders?—Because there is a huge unsatisfied demand for all goods on the part of the public, and the reason the natural demand is not translated into an effective demand is lack of purchasing power.

5172. How is this purchasing power going to reach the consuming public?—It reaches them through wages and salaries largely, also by dividends, pensions and the dole.

5173. But unless you see a prospect of disposing of your steel or whatever you happen to manufacture, unless you see orders coming in and ways of disposing of your extra product you will not want this extra financial stimulus?—No, but the disposal of those goods depends upon the activity of the average person. For instance, if your farmers find that there is a greater demand for their products they want farm implements; there is an increased demand for agricultural machinery. So they would begin to communicate with the agricultural implement makers and say, "We shall want more and more reapers and binders," and they would have to prepare for that. How has business increased at various periods, say that commencing with 1850? What was it that caused that increase in business? It was the increased amount of money that was put into circulation at the time. We had 20 years unprecedented prosperity more or less by reason of the fact that the public were able to get more purchasing power. The same thing happened in America after the War. You had first that 1919 deflation policy, and for three years America had one of the most terrible times of industrial depression known. I was in communication with my old friend, Mr. John Skelton Williams, at that time, who was the Controller of the Currency in Washington, and he sent me details. He told me that the deflation policy cost America more than the whole cost to America in the great War. President Harding found that things were going so badly that he called a meeting of the Federal Reserve Board and said, "I am not going to sit here and see the industries of this country ruined by your policy"—I am reciting what I was told in a private letter at the time.—He said: "You will have to stop this policy of deflation." The consequence was the bankers reversed their policy and in six months there was hardly an unemployed person in America; and then followed their recent period of trade prosperity.

5174. They have entered a period of depression again?—Yes, but, of course, there are other things affecting industry. It is a very long subject, but naturally the increase in labour-saving machinery has its effects on labour; but America is able to produce more goods than ever before in her history.

5175. *Mr. Tulloch*: Supposing the banks were able to lend 50 per cent. more than they are lending at the present time, do you say there would be the demand for that credit in relation to enterprise? I want to see how you would create this demand. I have got in my mind that you may be faced with saturation?—It all depends, of course, on conditions. The lending of money means a tax on industry.

5176. The lending of money means a tax on industry?—Yes.

5177. Are you suggesting that the person who wants the money should get it free?—I see no reason why the national credit should not be used freely by those to whom it belongs.

5178. I am dealing with things as they are at the present time. I am assuming that if the banks can lend more and do lend it, it will be on the basis of a moderate interest. Let us suppose that the banks to-day were in that position of being able to lend considerably more than they are actually asked for now, at a moderate rate of interest, what result would that have in your view?—It would depend entirely on the terms on which the loans are made. If they are short-term loans they would not have much effect on production. If they are long-term loans that is a totally different thing. I have been in the manufacturing business all my life. A short-term loan is of very little use to me. If I can get a loan for seven years it is of considerable use. I can put it to productive use, but it takes time to convert that money into products and sell them and get a return. If the bank says you shall have an overdraft but it is liable to be recalled in three months, in the majority of cases it is of no use to production.

5179. That is the answer to my question, that is to say, if the banks were able to lend considerably more than they are doing it would, in your view, have no effect on industry to-day?—I do not say it would have no effect. It must have some effect, but it would depend entirely on the nature of the loan and the terms on which it could be granted.

5180. That would not solve the unemployment question?—Not short-term loans. You have to give the manufacturer some time. Take a farmer. What use is it to him to offer him money for three months? He has to buy seed and fertilise his soil and it takes a matter of two or three years to get a result from it; therefore, you have to give him time.

5181. Let us suppose that the banks were in a position to grant long-term loans to a very material extent at the present time; what effect would that have, in your opinion, on unemployment? It all reduces itself to a question of unemployment. What would the result be in your opinion?—The result of giving sufficient loans to industry would be to enable enterprise to build up many industries. I know many that could be started at the present time; they are only waiting for the money to start them. It would mean all sorts of things in the way of putting men to work, employing them in the creation of goods which could be sold, but they have no money to build the industry at the present time. If they had long-term loans it would give them sufficient time to build up the industry and produce their products and still get the best return.

5182. That would be the basis of it?—Yes; they do these things in other countries.

5183. *Mr. Keynes*: Assuming you are right, as I am sure you are, that three years would elapse before the productive processes set on foot matured in goods, the wages that you would be providing forthwith would be spent at once?—Yes.

5184. Would not prices rise during that period?—That all depends on how many workmen you employed. If you suddenly came on the market with a demand for double the amount of products there were on the market prices would go up.

5185. If they increase 10 per cent. would prices go up 10 per cent.?—It could not be done suddenly. No sane manufacturer would suggest issuing to-morrow one hundred million pounds fresh currency. It is the trend of the policy. If Mr. Snowden could get up to-morrow in the House of Commons and do what Sir Austen Chamberlain did in 1920—the reverse of that, I mean—and say the Government is determined gradually to expand the currency to help industry, the effect would be magical—just that announcement. You saw what happened in 1920 when Sir Austen Chamberlain got up and said the Government had "set its heart on deflating the currency," how it brought about the most terrible fall in prices ever known, although the currency expanded after that.

5186. *Professor Gregory*: I understand your scheme to be this, that one of the difficulties of expanding credit apart from the currency is the fact that banks now charge a rate of interest for their loans?—Of course.

5187. You are in favour of free credit?—Certainly. The national credit belongs to the nation.

5188. If you gave credit freely, surely you would have an enormous demand for it?—Yes.

5189. How do you propose to keep it in check?—That would have to be done by the discretion of those who are put in charge of it and as to the purpose for which it is to be used. If it is to be used by stockbrokers for gambling on the market, then I say do not issue it; they have no right to it. On the other hand, if it is to be put to productive uses and the employment of labour, that is a different matter.

5190. Those who got the credit would, of course, agree that the methods under which you operated your currency system were right, but how could you discriminate between productive uses?—You discriminate to-day. You have individuals who are allowed to discriminate on behalf of their own interests. Would it not be wise to have people who discriminated on behalf of the public, who were paid public servants?

5191. I can conceive a great many reasons why they might arrive at a worse judgment?—You maintain your present policy by keeping many million people on the verge of starvation.

5192. That is not my point. Your scheme involves discrimination?—Certainly.

5193. I want to know at what limit it should stop?—Money is an invention the same as any other invention, and it has to be used by intelligent men intelligently for the benefit of the community. I maintain that this wonderful invention of money is to-day allowed to be used by individuals for their own private gain, regardless of the national interests, and they are able to dictate to the nation what the public shall have and what they shall not have. Just consider the position of the ordinary business man to-day. The Government say "You shall pay your taxes, your workmen and all your debts in currency", and yet no Government has taken the trouble to find out whether the volume of currency is sufficient to meet the demand; they leave it to these private banking companies who control it for their own profit.

5194. *Mr. Keynes*: Would you allow interest on the savings of individuals?—Well, I tell you frankly I am a Ruskinite. I am against usury in every form. Usury has been the curse of the world from the beginning; it has broken down other Empires than this, and it is going to break this Empire. There is not a single great moral or religious teacher who has not denounced it.

5195. *Mr. Brand*: By usury you mean interest? Yes, interest. Usury means payment for use regardless of percentages. It has been forbidden by every religion, the Christian religion, the Jewish religion and the Mohammedan religion. You have your trouble in Palestine to-day because the Arabs forbid it and the Jews encourage it.

5196. *Mr. Keynes*: The answer to my question is, you would not allow usury?—Not if I had my way. I say interest would die a natural death if you gave the people sufficient money. Why do people pay interest? Merely because money is a difficult thing to get and because you have an artificially chronic and insufficient supply maintained by the banks.

5197. Do you think savings are necessary?—Not under a proper economic system. Under a proper economic system you could have pensions for everybody when they get to a certain age. People would not have to consider how they were going to provide for their old age. Consider where your interest system is leading you. You cannot undertake a single public work to-day without paying interest charges. The entire Nation is in pawn! Where is to be the end of it? You complain of the dole; your existing system is nothing but a dole; you are encouraging more and more people to live on the earnings of others.

5198. *Mr. Tulloch*: If I save £100 and lend it to you, you are going to use it and make 10 per cent. on it?—Am I?

5199. Well, 5 per cent. Why should you not pay me 2½ per cent.? You are going to get the whole of the benefit out of my savings. Is that morally right?—I say it is morally wrong to pay for something which by its nature should be free.

5200. *Mr. Bevin*: Your point is that you should not have to go to our friend for the £100?—(*Witness*): Of course, you should not have to go to him at all. (*Mr. Tulloch*): I was not speaking as a banker but a private individual.

5201. *Mr. Keynes*: Are you against profits too?—Profits? I maintain that every man should do his share of the work of the world and he should be entitled to be paid for that share that he does and no more. If he gets more than that he is stealing from someone else. After all, where does your wealth come from. It comes from the earnings of the producing classes.

5202. *Mr. Brand*: Who is to decide what is to be their share in the production?—In what way?

5203. You say every man is entitled to the share that he is worth. Who determines what he is entitled to? You may not charge interest?—The market conditions determine that.

5204. Through interest?—No, excuse me. If you had a free system of trade, which you have not to-day, anywhere in the world, because you cannot have free trade where you have a monopoly of the medium of exchange—if you had that, then the market condition would have just and free exchange, but they are not free to-day.

5205. As a manufacturer you would get your credit free and you would make profits?—I should make what I could under those conditions, conditional with the market requirements, but other people would be making goods unless I had a monopoly, and I think the only legitimate monopoly in this country is what a man creates by his own brains; that is, a patent.

5206. *Mr. Bevin*: Is it possible for any one man to create a patent?—Probably not. I will put it that way, it is the most defensible, but I do not think any monopoly is really defensible. We are speaking of what is coming in the distant future; you talk of the present. I put it this way, that you will not solve your problem of unemployment until you change your financial system. That is as sure as possible.

5207. *Chairman*: You have given us a discourse on many of the ideals which you cherish, but our Report has to be out, we hope, within reasonable time, and must conform more or less to the disabilities of the present un-ideal world. What we should like to know from you is, whether you have anything to suggest, compatible with the limitations of the present system, which would, in your opinion be helpful. Quite frankly, you would not expect us to make our recommendations on the lines of the document which you put in. Please do not think I am speaking personally in the least. I can quite understand that you legitimately hold certain views about the present system being wrong. You may think the present system of society is wrong, and probably do; many people do; but given the situation as we find it, business men have to conform to the conditions in which they happen to find themselves. You would not expect this Committee to report in terms of the document you put in, would you?—Well, I do not see why they should not. Of course, you must have an ideal to work to, if humanity is to reach a higher plane.

5208. Yes, but a Report of a Departmental Committee is hardly the vehicle for ideals, is it?—Why not?

5209. Because it is a realistic document upon which we hope to get something done.—You can. You must move in the direction of some ideal. You cannot get anywhere without an ideal. We have the Ten Commandments; we profess to be Christians, some of us, and—those are all ideals to which the true follower tries to work; he may not get there but he is working in that direction, and if you work in this direction, that the monetary system of a country should be administered by the Government for the benefit of the public and industry, and not for the benefit of bank shareholders, that is the policy to adopt.

5210. *Mr. Bevin*: How much of your memorandum do you think we could apply, say, in the next year?—I do not see why you cannot apply it all. What is wrong with it? I admit it is mainly critical, and until we have destroyed these stupid financial superstitions we shall not get over our present evils, and as long as people believe in what they call a gold standard—which is sheer nonsense—you will never get anywhere.

5211. *Chairman*: One thing I would like to ask you. You use a very important adverb in paragraph 8. You say, "The fundamental evil in our financial system is the fact that it is *purposely* made international in character." I do not quite understand the adverb "purposely." It is international in character, I agree with you, but is not that, if you please, rather our fortune or misfortune; it is not a matter of our intentions?—Yes; our system is founded on the old Bank Charter Act, and if you read the speech of Sir Robert Peel which was delivered, I think, on May 4th, 1844, you will see that he refers to the pound sterling as being so many grains of gold and it is to be good the world over. Well, that is a fallacy. I maintain that money is not a commodity. It is national; it is not international.

5212. How can we get out of the fact that we are not a self-contained nation, that we are affected by what happens outside. How can we isolate ourselves?—You do not isolate yourselves. People do not buy goods they do not want; they buy goods that they need, cotton goods, woollen goods, that is the thing that has made us rich, not by lending money; we have never got rich on the gold standard. We get rich by producing consumable goods.

5213. *Mr. Tulloch*: But you must have a basis of exhange?—You can have a basis of exchange without gold. America throughout her paper money period carried on without an ounce of gold. She carried on after the Civil War for years and years with paper money, just as we did during our War period; we were not using gold. I admit gold as a commodity is useful for the purpose of settling international balances, but that is not money; you use it by weight of gold.

5214. *Mr. Brand*: You mean the value is immaterial?—The value as a commodity, but the value of money is not the material of which it is made. It is the quantity which is used.

5215. *Professor Gregory*: I take it that you are really asking us to do in the immediate future three things; first of all, to get off the gold standard. Would you agree to that?—I do.

5216. Secondly, the nationalisation of the banking system?—Yes.

5217. Thirdly, the utilisation of this international banking system for the purpose of expanding credit?—Of increasing trade and industry and using for that purpose——

5218. Free credit?—I am in favour of free credit.

5219. That is your immediate programme?—I should say that is the ultimate programme; I do not say it is the immediate. If I were Chancellor of the Exchequer I should insist on going back to the Treasury note system, I should say, "Why should a private trading company be allowed to issue notes which represent the national credit and get the benefit of it; why cannot we do that?" I should want the benefit for the nation. The Treasury note system is the finest monetary system the world has ever known.

5220. What is your immediate programme?—To return to the Treasury Note system would be my immediate programme.

5221. Would you abolish the Bank of England?—I would take it over as a national concern.

5222. And issue, not Bank of England notes, but Treasury notes?—Treasury notes. And you have got behind the Treasury note not a small and continually variable quantity of gold but the entire wealth of this country; not a movable amount of gold that is dependent on the needs of foreign capital. I ask you, as rational men, is there anything more ludicrous than that our trade, our production here, should be dependent upon the speculation of foreign countries, as to whether they want gold? If Germany or France wants our gold, down goes credit, and up goes the Bank rate; people are thrown out of employment, and then we have to wait till they let us have the gold back again.

5223. You do not contemplate any immediate evil consequences from an announcement that you proposed to abolish the gold standard and to abolish the Bank of England?—Oh, yes! In financial circles there would be an awful row. The bankers can always work up a panic. I quite admit the supremacy of the banks in power. The seat of the Government to-day is not Westminster, but Threadneedle Street. Those who control the money of a country control everything. You must know that.

5224. *Mr. Bevin*: Well, they have temporarily handed it to us. That is one consolation?—If you have a Treasury note you will see the whole thing on the note itself. You have got on a Treasury note the King's effigy, which represents that it is issued by the King's authority. Here is a new Bank of England £1 note. What you have on it is this: "I Promise to pay the Bearer on Demand the sum of One Pound." Does anybody know what that £1 is? Go to the Bank and ask them. They give you another promissory note, and on the back of it is your present seat of Government, the Bank of England premises. That is what you have in place of the Treasury note which represents the whole of the country's wealth.

5225. *Chairman*: That seems a very appropriate curtain for your dramatic representation. I think we should now hear Mr. Bolton's views?—I must apologise if I have taken up too much of your time.

5226. Please do not apologise at all.—I feel very keenly on this subject. To me it is not a mere academic subject for theoretical discussion. I see thousands of people out of employment and thousands of young people being made unemployable; I see poverty and misery stalking through this land; I think it is horrible, and I do not know how the men who have the power to change the system can sleep at night while thousands of men are driven to crime and young women are thrown on the streets to follow a life of prostitution because of this unscientific financial system!

5227. Do not think for one moment we are not entirely sympathetic with your views, and that we are not distressed at what is happening now. I assure you that we around this table are quite sympathetic, and, although our discussion has been good humoured, it is not because we do not realise the gravity of the national situation. But you can quite understand the responsibility we have to shoulder here. We have to make recommendations. The whole system is so sensitive that we may do irreparable harm if we do not proceed with caution. We have had the advantage of hearing all sorts of views, diametrically opposed views, and some of us, at least I do, find ourselves a little at a loss in the conflict of opinion.

Mr. Bolton, your association with the Economic Freedom League is that of secretary. May I ask in turn of you what opportunities of studying these matters you have had?—(*Mr. Bolton*): Yes, I am an engineer by trade; I served an apprenticeship in the workshops and I have all my life been up against realities. I have had to design and make machinery and I understand the enormous power of modern machinery. I would humbly suggest that it is only the engineer and the people who are associated with machinery, who appreciate or understand fully the productive power of machinery. I have a great respect for economists and for people who study facts, but I realise, as a practical man, that the economist must work after the engineer. The engineer first creates and the economist then tries to sum up and deduce his theory. Now we have created an industrial and financial system; it has had to grow, but the financial part has not grown so rapidly as the industrial part. Our engineers and scientific men are making progress faster than the financial system and they are ahead of it. I am engaged in the production and application of machinery and I honestly believe that engineers and scientists are so far ahead of economists and our financial system that we engineers have reached the stage of warships while the economists remain with bows and arrows.

5228. I can quite understand that the rapid growth of industrialism in this country may have outstripped the financial system, so that the two may require further readjustment. We have evidence that that view is held in many quarters. We have read through the précis, which you have been good enough to send in to us, in which you examine one after the other all the accepted methods of endeavouring to modify the financial system in order to achieve the result that you want by producing an equilibrium between the financial system and the industrial system. But what is so depressing to me is that apparently all these things can have no possible effect; I am left in a state of profound depression, because you do not suggest to us any practical remedy, whilst you denounce, for reasons that you state, every one of the expedients that have hitherto been suggested. Is there no gleam of hope in your mind; no suggestion as to whether anything can be done on these lines?—Yes. I am restricted somewhat by our League. I am here to represent our League, and our League is out to direct public attention to this discrepancy and to try and educate people to think along the lines of a remedy. So far our League has not adopted any particular scheme, but desires to concentrate attention on criticism of the present system.

5229. In the best sense of the term, you are a body that agitates? I am using the term "agitates" not in a derogatory spirit; you desire to stir up public opinion; to agitate?—Or educate.

5230. You have gone through every one of the possible remedies, from Communism to improving our export trade, and none of them, according to your view, is of any assistance? (*Professor Gregory*): I was going to ask Mr. Bolton certain questions on paragraph **24** of his memorandum. In the first part, Mr. Bolton, you dismiss every other alternative explanation and you refuse to give, on the ground you have already stated, any definite remedy. What you really give in paragraph **24** are the reasons why the process breaks down. What I wanted to ask you was why you think that these deductions from the selling price are really devaluation of purchasing power. Supposing you take the question of saving; if I receive an income of £200 and save £50, which I lend to you, as an engineer, to extend your works, why should that reduce the aggregate demand of the community? Do you think that the saving process which involves my reducing my consumption by £50 and your extending your consumption of machines by £50 really involves a net loss of purchasing power to the community?—It does.

5231. Why do you say that?—You are mixing two things—savings with plant. You say "If I restrict my purchases and I give the money to you and you spend it the one cancels the other." But that is not saving money; I suggest to you savings are increasing, and in any period of time if you get increasing savings the amount of that increase is a definite deduction from spending power.

5232. If I save £50 and keep it in a stocking. Are you thinking of that kind of thing?—Yes.

5233. Properly speaking, that is hoarding rather than saving?—No, I do not agree with you.

5234. Would you say that the characteristic feature of society is the accumulation of wealth by hoarding?—No.

5235. Surely the only kind of saving that can produce the result that you are speaking of is the kind of saving that consists of hoarding cash?—Yes.

5236. That is not the kind of saving that you are referring to?—It depends on what you mean by "saving." I was using the word "saving" in the strict dictionary sense, that you actually save money.

5237. That you hoard it?—Yes.

5238. *Chairman*: Take the case of a man with £500 a year who manages to live on £400, he looks round to see what to do with the remaining £100; you happen to be an inventor, and you say, "If I only had £100 from ten gentlemen round the table I could do wonders with it," and the ten gentlemen give you £100; that money is all put to profitable use in your hands. That is all to the good?—Yes.

5239. I do not know of any person who has saved £100 by his economy and put it away who does not want to make the best use he can of it?—The only savings I refer to in Section (*a*) of paragraph **24** are the savings which are put in the bank and which accumulate year by year. If we take the statistics of savings put on one side we find that those savings accumulate year by year.

5240. There is always a certain margin. Supposing you do save the £100—I am taking a very simple example—you might say, "I would like to keep £20 of that saving in case of anything turning up; so you leave £20 with the bank. There again, when the bank gets the £20 it does not put it away, it puts it to the deposits which it has, and is enabled in that way to make loans to some customer of the bank, and in turn what you have lent to the bank is, or may be, applied—that is, if it is wisely applied—by the bank to industrial purposes, and in that way you get encouragement of industry. What is wrong with that?—There is nothing wrong with it at all, in that sense, but this might happen: if you deduct anything from your wages—supposing you have £100 per annum and you do not spend £100 per annum, you only spend £90, and you save £10, that £90 will not purchase £100 worth of commodities. Now, what has happened to that £10 is quite another story. I quite agree with you, if that £10 is transferred to the bank and the bank lends it and it is spent, it cancels the other £10 and there is nothing left.

5241. It is transferred to another agency?—Yes. I agree that Item (*a*) is very insignificant. It only relates to the increasing amount of savings which accumulate. It is not a vital matter; it is possibly the smallest of the lot.

5242. *Professor Gregory*: Will you explain how (*b*) (*c*) (*d*) and (*e*) in paragraph **24** affect the problem?—Perhaps we can deal with it more simply by taking a large firm like the Imperial Chemical Industries, who will allocate to their reserve large sums of money —I think the amount is something in the region of £16,000,000. The amount of reserves standing to the credit of this particular firm has been deducted from their trading year by year; that is to say, the amount has appeared in the prices of Imperial Chemical Industries' goods. They have priced the goods out at the end of the year; they have arrived at their sum total, and from that total of prices they have made a deduction which they have allocated, or earmarked, to reserve. They have not spent it; it is there for a purpose; it may or may not be used.

5243. *Mr. Frater Taylor*: It has been included in the cost of the goods?—Yes, and it is deducted from the price, and is ear-marked for some future period. That money is not spent.

5244. *Mr. Brand*: And what is on the other side of the Balance Sheet? (*Mr. Tulloch*): In what way is it saved?—It does not matter very much by what method or in what way or how it appears. My point is that it is a fact that it has been deducted; it has not been issued and spent, it is there available for some future use.

5245. *Professor Gregory*: Supposing Imperial Chemical Industries have a reserve fund of £10,000,000 as a liability; against that they have £10,000,000 assets of some sort, have they not?—Yes.

5246. How did they acquire those assets?—I think you are mixing their capital charge with reserve. The amount they put to reserve is a reserve fund which has been deducted year by year and accumulated.

5247. What have they done with it?—They have it there for a particular purpose.

5248. Take an individual. You have a business of your own, you do not spend all the profits, you put a part of it back into the business. What do you do with it?—That is a transfer from reserve to capital account. If you put part of your profits by and reinvest them you put them into your capital.

5249. *Mr. Keynes*: Is not that what Imperial Chemical Industries do?—They do from time to time, but the point is, they have a fund of so many millions somewhere, which is available for that purpose.

5250. What form is it in?—It does not matter.

5251. Is it in the form of factories?—No, it is not.

5252. It is not in pound notes?—No, but it figures in their accounts and it is liquid.

5253. *Professor Gregory*: Are you thinking of such proportion of their reserve fund as they have not yet invested in anything?—Yes.

5254. If you study the balance sheet of a big firm, they have a cash account?—Yes.

5255. But that is not a large proportion of their total assets?—No.

5256. Consequently (*b*), if by "reserve" you mean cash holding, is a very small proportion of the total holding?—I agree that the cash holding is a very small proportion.

5257. The aggregate reserves are large but you admit that part of the aggregate reserves are invested in buildings and raw materials?—No, I do not admit that. They are transferred from the reserve to capital account.

5258. *Chairman*: A company may invest its funds in industrials?—Yes, but I take it that that money which they invest from their reserve account is available at any time they want it. It is not in the form, shall we say, of a set of machines in their own shop.

5259. *Mr. Tulloch*: Something has been bought with those reserves. On the other side of the balance sheet they appear in the form of assets, by reason of the fact that they have either been exchanged for goods or have gone to the bank, which is using them, apart from the trivial amount kept in the till?—If you have a trading profit at the end of the year and from your profit you make a deduction and allocate a certain amount to reserve, I take it that that money has not been spent, but is available for future use.

5260. *Chairman*: I do not think that is the actual fact. It is quite true that in the price of a commodity there is a margin, and the profit at the end of the year after dividend has been paid is placed to reserve, but that reserve does not consist of notes; in most cases it will be an investment, or buildings, or it will be put into the business, or something of that sort. (*Mr. Brand*): May I take an example of a company of which I am a director, the Newcastle Electric Supply Company. We put £200,000 to reserve every year. The great bulk of that is represented by power stations. We use that cash to add to our capital assets. (*Chairman*): And it is still called reserve?—May I ask whether, when they put that £200,000 to reserve last year, that money would be spent in the subsequent year?

5261. *Mr. Keynes*: Would you agree that there are intervals during which individual firms have money at the bank?—Yes.

5262. Which they have not spent?—Yes.

5263. If a member of the public, or a firm, is leaving with its banker £1,000 that it has not spent for the time being, whether or not the effect that you are afraid of results depends upon whether the bank increases its lending by that £1,000 and puts that money at somebody else's disposal, does it not?—No, I will tell you the point I am trying to make. The difference between not spending and spending is this: If at the end of a period of time a firm have a trading account and there is a margin—whether it is £200,000 or £1,000,000 does not matter—if there is any margin which is not spent, but allocated for any particular purpose that money is not spent during that period.

5264. *Mr. Brand*: That money is put into the bank?—Yes.

5265. What does the bank do with it?—That is another story. My point refers only on to this particular firm. I am trying to make out a principle. What happens to it subsequently is quite a different thing.

5266. *Mr. Keynes*: Is not that what matters? (*Mr. Tulloch*): That particular firm does not spend the wages it pays to its employees?—If you look at it from the point of view of a law or principle that firms engaged in business at the end of a financial year allocate sums of money which have appeared in their prices as reserves for the future, then the general principle is that firms do not spend 100 per cent. of what they charge in prices.

5267. *Chairman*: Take this case: A firm recognises it is getting a little bit out of date and will have some considerable capital expenditure to face in the future. Would it be wise to carry money to reserve so that when it requires capital for expansion it will not have to go to the bank, but can use it from its own resources?—Yes.

5268. It is quite true that for a year or two it would not require to spend it, but it might contemplate building up a growing fund which could be used as required for the extension of the business and it would save going to the bank. That is a perfectly laudable process?—Yes, I agree with it, and I think on that particular example we could reach agreement. The firm have been able to put by for the future a sum of money out of prices.

5269. Is not that an excellent process?—It may be an excellent process, but I am trying to arrive at a principle or a law and that is, that what is left after those deductions have been made will not permit that firm or the aggregate people in that firm to buy back the 100 per cent. which they have charged in the price.

5270. *Professor Gregory*: It obviously makes a great deal of difference whether you are thinking of one firm or a number of firms taken together?—I think in the case of a principle or law it must be of general application and every firm should conform to it.

5271. Let us go back to the case which you gave as an example, and let us assume that at the end of four years the Company has a reserve fund of £400,000. That money is gradually being piled up. Surely the real point is, first, how the bank uses it?—What the bank does with that money is a question for the bank; it is the bank's business.

5272. *Mr. Keynes*: Some firms borrow money, those firms are spending more than they are receiving?—Yes.

5273. They are having, so to speak, a minus?—That is right.

5274. Is it not perfectly all right for the country as a whole if those firms which are spending more than they are getting back have an excess equal to the excess of those firms which are getting back more than they are spending?—That is sound.

5275. And if that is happening it is all right?—No, because the amount of money which they are receiving is money which has been received from capital expenditure and which has been deducted from prices.

5276. If one firm puts £2,000 to reserve in a week and leaves it at its bank, what is to prevent that bank lending that £2,000 to a firm which is expanding? Is not the purchasing power in that case fully equal?—It is.

5277. What is at fault?—That firm "A" who have an excess of £2,000 have added in their price £2,000. They have recovered that and have a surplus of £2,000 as the result. That is the principle that I am claiming. Firm "B" want to borrow money, which is not a regular trading account; they do not trade in borrowed money. The borrowing of money is an incidental matter which may happen periodically.

5278. This firm which is borrowing is paying out wages for the time being and its workers are not producing a saleable product, so that in that case the wages running on to the market are in excess of the amount of purchasable goods?—Yes.

5279. Is not the essential thing to take the firms together; the amount of buying power coming on the market should be equal to the value of the purchasable things?—Yes.

5280. If the banking system could equate the number of selling firms and borrowing firms that would achieve your purpose?—I agree it would be an improvement on the present system. It would work out as a static equation, but it would never function in industry.

5281. Why not?—Because it would make no provision for future progress.

5282. *Professor Gregory*: Is not your difficulty this? You are thinking that if firms did not put

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sums to reserve they would be able to charge lower prices for their goods, but having to put sums to reserve they add on to their sale price of goods the sums they have put to reserve. That is not what actually happens. You get the market price and if you make a sufficient amount of profit you can put sums to reserve?—I do not agree with that. It is a question of business for firms to provide for the future.

5283. I gather your difficulty arises from the fact that you think this reserve fund accumulates by way of a charge added to the prices of goods which would otherwise be sold at a lower level?—Where else can it come from.

5284. You would agree that one could cure unemployment if one could make sure that the firms which were employing labour in excess of the consumable products which they were producing were balanced by firms situated in the opposite way?—No. If we all made things with our hands I would agree, but the first time an engineer produced a machine to do the work of ten men managed by one man you would have your unemployment.

5255. *Mr. Tulloch*: Your trouble seems to be that the amount of money that goes into prices as manufacturing costs is not spent in any given time?—Exactly.

5286. How can you help it? Take your heads (*b*), (*c*), and (*d*), you are bound to place money to reserve, to write off plant and buildings, and to allocate sums to depreciation?—I agree.

5287. That being the physical condition in which you find yourselves with an industry why complain about it? It is there?—I agree with you entirely that is a physical condition of industry, and my complaint is that that condition is wrong

5288. I do not see how you can get out of that. Things become obsolete; you, as an engineer, must realise that you must depreciate; you cannot preserve your capital intact unless you do?—Let us look at it from the physical point of view. Let us suppose a firm improve their machinery and plant; it is reasonable to say that that firm has more valuable assets, and it is also a reasonable thing to say that those added assets should not come out of the prices.

5289. But they do not?—I suggest they do not come from any other source.

5290. You get the price that you can obtain in the market. Professor Gregory was explaining that. The cost of your machinery is not directly reflected in the market price. You get the best price you can in the market?—I agree.

5291. That is the top and bottom of it?—No; if you get the best price you can in the market your object is to build up as large a sale as you can; you build up your selling price and get your cost down to make a margin between the two for your allocations. That is the object. My point is that that object in principle is wrong and it will not work.

5292. *Sir Walter Raine*: If you did not, would you not ultimately put up the price to the consumer? Suppose you increase the number of articles produced and keep the price down. If you had not the reserve to make the improvements would you not ultimately increase the price to the consumer, because you would have to borrow money for improvements?—I do not see why you should increase the price to the consumer by borrowing money, if you borrow money for the purpose of adding to your plant.

5293. Supposing yours is a firm with a capital of £100,000 and you do not reserve anything for machinery. In the course of a few years the machinery gets out of date. You still have your £100,000 and you are in the position of having depreciated assets, so you have got to get another £100,000. You then have £200,000. That means an addition to your cost of production, so you have to put the price up to the consumer?—I do not think that principle is a sound one. I think if you have £100,000 capital you ought to maintain it at £100,000 out of your prices.

5294. You said you did not agree with it?—No: where I do not agree is that you should make your £100,000 into £200,000. I agree you should depreciate plant and machinery and you should maintain it at its orginal value, but not one penny more. The trouble is that firms will write off heavy depreciation, and they find in the course of time the amounts they have written off are such that they could afford to give a bonus to their shareholders to increase their holdings, and the amount appearing in the books is fictitious, the plant is really worth very much more than it appears.

5295. How do you propose to build up the plant?—That is another matter.

5296. *Mr. Tulloch*: You are arguing that your policy does not enable you to put anything to reserve or depreciation?—I agree that to follow our friends the economists along their mazes and try to get along with depreciation and reserves and capital costs all involves you in endless difficulty, but I submit with all due deference that this is an indication of the mess that they have got us into. There is not a single thing that you people want that industry cannot supply in unlimited quantities, and yet because of this terrible mess of finance, our factories have got to close down. On paper we cannot do the thing, but when we come to realities we can.

5297. *Sir Walter Raine*: Take the case of municipalities with electricity undertakings. You know that with the development of electricity plants have had to be scrapped very frequently. Many municipalities, after having written off by means of sinking fund the amount required under Board of Trade regulations, have found themselves at the end of four or five years with heavy depreciation, far beyond what they had written off; the result was that for two or three years they had to put up the cost of electricity to consumers?—Yes.

5298. How are you going to get over a difficulty like that if you do not have a reserve fund?—If I had to patch up this system I should make reserves from a different source. A capital account should be a capital account.

5299. Are you not talking of a thing that happens only with one in 10,000 firms?—Yes, to-day.

5300. They may happen to have reserves which they have distributed as bonus shares, but we are looking at the question from the general standpoint of a reserve fund, and what is its purpose. The purpose of a reserve fund is to keep the capital always at its full point?—I agree with that view.

5301. *Professor Gregory*: I want to ask you the question that the Chairman asked Mr. Kitson. What do you immediately recommend?—I would immediately recommend that you try and get money to function as a means of enabling industry and men to work and the goods to be delivered.

5302. In other words, substantially what Mr. Kitson wants?—No.

5303. I want to know precisely what you want to do. Supposing you had absolute liberty to make the recommendations of this Committee, what would you in fact recommend?—May I trespass in the realms of idealism? It may help us to take something other than a depressed view.

5304. *Chairman*: I see that one of the sections of your précis is headed "The Road to Prosperity". I assure you that if you will put us on the road to prosperity you will have done us a great service; I for one would like to be put on that road?—The British Empire is capable of becoming an economic unit; that is, in raw materials, in manufactures, in machinery, and in labour. The British Empire could function as a self-contained unit. I am speaking now of realities, things; not money, not pap

I am speaking of the actual food that we eat, the clothes that we wear, the motor-cars that we ride in. If the British Empire is in that position, surely it is not beyond the wit of our economists, to devise —to alter, if you like—our money system so that our factories can get to work, the goods can be made and the exchanges can work between Colony and Colony. At the present time we have this fact that Australia is wanting to find jobs for her workpeople, for Australians and is excluding English goods. As soon as you find jobs for your workpeople your scientific men and engineers will put them out of commission. It is an engineer's job to design and make labour-saving machinery. I was in a factory on Monday last where eight men were doing work which 45 men did two years ago. The work could have been done by labourers, the whole of the production was automatic. When I was in the shop I had to make crosshead pins; each took an hour. To-day, in America, a man can look after 10 machines and each machine turns out one pin in four minutes. We have everything in the British Empire to make us self-supporting and everybody satisfied.

Our economists have not solved this problem:—As the engineers turn out labour-saving machines to do an increased volume of work we cannot reduce the working hours, so that we do not get any beneficial result. In a steel tyre mill at Penistone each man does the work that 50 men did in 1919. That firm cannot make 50 times the quantity of tyres, so 49 men are put on the scrap heap. Surely we ought to be able to reduce the number of hours worked to compensate for the machine, so that the machinery is helpful to humanity. We ought to do that, and make our monetary system function so that people get delivery of goods. The production of real goods was the vital aim and purpose of industry, not making the figures of a balance sheet, but making and delivering real things. One cutlery manufacturer said to me, "Trade is in a terrible condition." I said, "Your job is to make a satisfactory balance sheet." He said, "It is impossible." I said, "How would you go on if you had to make nothing but cutlery?" He replied, "It would be heaven," and I agreed with him. In Sheffield we have the ability to make the finest pocket knives that were ever made in the world. They are exquisite works of art, but the youngest man who is working on them to-day is 46 years of age; when he has gone that art has gone for ever. In this age we are creating misery and poverty, which could all be avoided by the proper use of machinery working for the benefit of the community. We could do this job without money, and I think we could do it more quickly without money, and with less trouble. My own plan would be to give people cards for the delivery of goods. Take each trade separately. Everyone who is willing to work would get a card, everyone who had securities, who had money, who had investments, would have a luxury card; he would have anything that money could buy; he would have goods delivered to him at to-day's prices in the same quantity that he can now get in the way of interest or income. We would deliver in goods to him what he can buy in goods to-day, and we would ensure him that for life. If we could supply the people with real goods instead of money the job would be easy. I suppose in the last resort you would agree that money is only required for obtaining goods? If you ask British industry to deliver you the goods there is nothing you could not get in untold quantities.

5305. *Mr. Lubbock*: When you speak of cards you are only reintroducing money?—No, because they would not be a commodity. It would be the same as the water rate; just as we pay a water rate and get an untold amount of water out of the tap, so we should by means of cards.

5306. *Mr. Tulloch*: You would go back to barter?—No; if you could get sufficient clothing from the clothing industry for your requirements, and sufficient food for your requirements, your card would disappear. People would get it just as they now get water.

5307. By going and asking for it?—Yes.

5308. *Mr. Keynes*: You might want three suits and another man a few lbs. of bacon?—Our economists could do it quite simply. If you measured the quantity of suits of clothing that the British Empire could make I think you would find that it would run into about 100 suits each.

5309. *Sir Walter Raine*: Are you a member of a Public Assistance Committee? Just join one for an afternoon and you will alter your theories?—My theories are not in the air; my theories have their roots in machinery.

Chairman: I am sure of the sincerity with which you entertain your views but, as I say, we have to be very practical round this table. We are considering very carefully all the views that we receive—some of them very diverse, as you may imagine—and we are obliged to you for your contribution.

(*The Witnesses withdrew.*)

(*Adjourned until to-morrow, Friday, 16th May, 1930, at 4.30 p.m.*)

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